BERKSHIRE HATHAWAY INC.

1993
ANNUAL REPORT

Business Activities

Berkshire Hathaway Inc. is a holding company owning subsidiaries engaged in a number of diverse business activities. The most important of these is the property and casualty insurance business conducted on both a direct and reinsurance basis through a number of subsidiaries collectively referred to in this report as the Berkshire Hathaway Insurance Group.

Investment portfolios of insurance subsidiaries include meaningful equity ownership percentages of other publicly traded companies. Such investments at the end of 1993 included approximately 48% of the outstanding capital stock of GEICO Corporation, approximately 13% of the capital stock of Capital Cities/ABC, Inc., approximately 11% of the capital stock of The Gillette Company, approximately 7% of the capital stock of The Coca-Cola Company, approximately 15% of the capital stock of The Washington Post Company, approximately 12% of the common stock of Wells Fargo & Company, approximately 14% of the common stock of General Dynamics Corporation and common and convertible preferred stock of Salomon Inc having approximately 15% of the total voting power of that company. Much information about these publicly-owned companies is available, including information released from time to time by the companies themselves.

Additionally, Berkshire Hathaway Inc. publishes the *Buffalo News*, a daily and Sunday newspaper in upstate New York. Other business activities conducted by non-insurance subsidiaries include publication and distribution of encyclopedias and related educational and instructional material (*World Book* and *Childcraft* products), manufacture and marketing of home cleaning systems and related accessories (sold principally under the *Kirby* name), manufacture and sale of boxed chocolates and other confectionery products (*See's Candies*), retailing of home furnishings (*Nebraska Furniture Mart*), manufacture and distribution of uniforms (*Fechheimer Brothers Company*), manufacture, import and distribution of footwear (*H.H. Brown Shoe Company, Lowell Shoe, Inc. and Dexter Shoe Company*) and manufacture and distribution of air compressors, air tools and painting systems (*Campbell Hausfeld* products). Berkshire also owns a number of other businesses engaged in a variety of activities, as identified in this report.

Operating decisions for the various Berkshire businesses are made by managers of the business units. Investment decisions and all other capital allocation decisions are made for Berkshire and its subsidiaries by Warren E. Buffett, in consultation with Charles T. Munger. Mr. Buffett is Chairman and Mr. Munger is Vice Chairman of Berkshire's Board of Directors.

BERKSHIRE HATHAWAY INC.

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Directors and Officers of the Company ..... Inside Back Cover

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Certain **OWNER-RELATED BUSINESS PRINCIPLES** were included in the Chairman's letter* to Shareholders of Berkshire Hathaway Inc. in the 1983 Annual Report. Because the material remains topical, it is reproduced on this and the following page.

With so many new shareholders, it's appropriate to summarize the major business principles we follow that pertain to the manager-owner relationship:

- Although our form is corporate, our attitude is partnership. Charlie Munger and I think of our shareholders as owner-partners, and of ourselves as managing partners. (Because of the size of our shareholdings we also, are, for better or worse, controlling partners.) We do not view the company itself as the ultimate owner of our business assets but, instead, view the company as a conduit through which our shareholders own the assets.

- In line with this owner-orientation, our directors are major shareholders of Berkshire Hathaway. In the case of at least four, over 50% of family net worth is represented by holdings of Berkshire. We eat our own cooking.

- Our long-term economic goal (subject to some qualifications mentioned later) is to maximize the average annual rate of gain in intrinsic business value on a per-share basis. We do not measure the economic significance or performance of Berkshire by its size; we measure by per-share progress. We are certain that the rate of per-share progress will diminish in the future — a greatly enlarged capital base will see to that. But we will be disappointed if our rate does not exceed that of the average large American corporation.

- Our preference would be to reach this goal by directly owning a diversified group of businesses that generate cash and consistently earn above-average returns on capital. Our second choice is to own parts of similar businesses, attained primarily through purchases of marketable common stocks by our insurance subsidiaries. The price and availability of businesses and the need for insurance capital determine any given year's capital allocation.

- Because of this two-pronged approach to business ownership and because of the limitations of conventional accounting, consolidated reported earnings may reveal relatively little about our true economic performance. Charlie and I, both as owners and managers, virtually ignore such consolidated numbers. However, we will also report to you the earnings of each major business we control, numbers we consider of great importance. These figures, along with other information we will supply about the individual businesses, should generally aid you in making judgments about them.

- Accounting consequences do not influence our operating or capital-allocation decisions. When acquisition costs are similar, we much prefer to purchase $2 of earnings that is not reportable by us under standard accounting principles than to purchase $1 of earnings that is reportable. This is precisely the choice that often faces us since entire businesses (whose earnings will be fully reportable) frequently sell for double the pro-rata price of small portions (whose earnings will be largely unreportable). In aggregate and over time, we expect the unreported earnings to be fully reflected in our intrinsic business value through capital gains.

- We rarely use much debt and, when we do, we attempt to structure it on a long-term fixed-rate basis. We will reject interesting opportunities rather than over-leverage our balance sheet. This conservatism has penalized our results but it is the only behavior that leaves us comfortable, considering our fiduciary obligations to policyholders, depositors, lenders and the many equity holders who have committed unusually large portions of their net worth to our care. (As one of the Indianapolis "500" winners said: "To finish first, you must first finish.")

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- A managerial "wish list" will not be filled at shareholder expense. We will not diversify by purchasing entire businesses at control prices that ignore long-term economic consequences to our shareholders. We will only do with your money what we would do with our own, weighing fully the values you can obtain by diversifying your own portfolios through direct purchases in the stock market.

- We feel noble intentions should be checked periodically against results. We test the wisdom of retaining earnings by assessing whether retention, over time, delivers shareholders at least $1 of market value for each $1 retained. To date, this test has been met. We will continue to apply it on a five-year rolling basis. As our net worth grows, it is more difficult to use retained earnings wisely.

- We will issue common stock only when we receive as much in business value as we give. This rule applies to all forms of issuance — not only mergers or public stock offerings, but stock-for-debt swaps, stock options, and convertible securities as well. We will not sell small portions of your company — and that is what the issuance of shares amounts to — on a basis inconsistent with the value of the entire enterprise.

- You should be fully aware of one attitude Charlie and I share that hurts our financial performance: regardless of price, we have no interest at all in selling any good businesses that Berkshire owns, and are very reluctant to sell sub-par businesses as long as we expect them to generate at least some cash and as long as we feel good about their managers and labor relations. We hope not to repeat the capital-allocation mistakes that led us into such sub-par businesses. And we react with great caution to suggestions that our poor businesses can be restored to satisfactory profitability by major capital expenditures. (The projections will be dazzling — the advocates will be sincere — but, in the end, major additional investment in a terrible industry usually is about as rewarding as struggling in quicksand.) Nevertheless, gin rummy managerial behavior (discard your least promising business at each turn) is not our style. We would rather have our overall results penalized a bit than engage in it.

- We will be candid in our reporting to you, emphasizing the pluses and minuses important in appraising business value. Our guideline is to tell you the business facts that we would want to know if our positions were reversed. We owe you no less. Moreover, as a company with a major communications business, it would be inexcusable for us to apply lesser standards of accuracy, balance and incisiveness when reporting on ourselves than we would expect our news people to apply when reporting on others. We also believe candor benefits us as managers: the CEO who misleads others in public may eventually mislead himself in private.

- Despite our policy of candor, we will discuss our activities in marketable securities only to the extent legally required. Good investment ideas are rare, valuable and subject to competitive appropriation just as good product or business acquisition ideas are. Therefore, we normally will not talk about our investment ideas. This ban extends even to securities we have sold (because we may purchase them again) and to stocks we are incorrectly rumored to be buying. If we deny those reports but say "no comment" on other occasions, the no-comments become confirmation.

Berkshire's Corporate Performance vs. the S&P 500

Year	Annual Percentage Change in Per-Share Book Value of Berkshire (1)	Annual Percentage Change in S&P 500 with Dividends Included (2)	Relative Results (1)-(2)
1965	23.8	10.0	13.8
1966	20.3	(11.7)	32.0
1967	11.0	30.9	(19.9)
1968	19.0	11.0	8.0
1969	16.2	(8.4)	24.6
1970	12.0	3.9	8.1
1971	16.4	14.6	1.8
1972	21.7	18.9	2.8
1973	4.7	(14.8)	19.5
1974	5.5	(26.4)	31.9
1975	21.9	37.2	(15.3)
1976	59.3	23.6	35.7
1977	31.9	(7.4)	39.3
1978	24.0	6.4	17.6
1979	35.7	18.2	17.5
1980	19.3	32.3	(13.0)
1981	31.4	(5.0)	36.4
1982	40.0	21.4	18.6
1983	32.3	22.4	9.9
1984	13.6	6.1	7.5
1985	48.2	31.6	16.6
1986	26.1	18.6	7.5
1987	19.5	5.1	14.4
1988	20.1	16.6	3.5
1989	44.4	31.7	12.7
1990	7.4	(3.1)	10.5
1991	39.6	30.5	9.1
1992	20.3	7.6	12.7
1993	14.3	10.1	4.2

Notes: Data are for calendar years with these exceptions: 1965 and 1966, year ended 9/30; 1967, 15 months ended 12/31.

Starting in 1979, accounting rules required insurance companies to value the equity securities they hold at market rather than at the lower of cost or market, which was previously the requirement. In this table, Berkshire's results through 1978 have been restated to conform to the changed rules.

In 1993, accounting rules changed so that all common equities, including those held by non-insurance entities, are now carried at market. The entire change was credited to 1993, since the restatement of the figures for earlier years would have resulted in only minor adjustments.

The S&P 500 numbers are pre-tax whereas the Berkshire numbers are after-tax. If a corporation such as Berkshire were simply to have owned the S&P 500 and accrued the appropriate taxes, its results would have lagged the S&P 500 in years when that index showed a positive return, but would have exceeded the S&P in years when the index showed a negative return. Over the years, the tax costs would have caused the aggregate lag to be substantial.

To the Shareholders of Berkshire Hathaway Inc.:

Our per-share book value increased 14.3% during 1993. Over the last 29 years (that is, since present management took over) book value has grown from $19 to $8,854, or at a rate of 23.3% compounded annually.

During the year, Berkshire's net worth increased by $1.5 billion, a figure affected by two negative and two positive non-operating items. For the sake of completeness, I'll explain them here. If you aren't thrilled by accounting, however, feel free to fast-forward through this discussion:

1. The first negative was produced by a change in Generally Accepted Accounting Principles (GAAP) having to do with the taxes we accrue against unrealized appreciation in the securities we carry at market value. The old rule said that the tax rate used should be the one in effect when the appreciation took place. Therefore, at the end of 1992, we were using a rate of 34% on the $6.4 billion of gains generated after 1986 and 28% on the $1.2 billion of gains generated before that. The new rule stipulates that the current tax rate should be applied to all gains. The rate in the first quarter of 1993, when this rule went into effect, was 34%. Applying that rate to our pre-1987 gains reduced net worth by $70 million.

2. The second negative, related to the first, came about because the corporate tax rate was raised in the third quarter of 1993 to 35%. This change required us to make an additional charge of 1% against all of our unrealized gains, and that charge penalized net worth by $75 million. Oddly, GAAP required both this charge and the one described above to be deducted from the earnings we report, even though the unrealized appreciation that gave rise to the charges was never included in earnings, but rather was credited directly to net worth.

3. Another 1993 change in GAAP affects the value at which we carry the securities that we own. In recent years, both the common stocks and certain common-equivalent securities held by our insurance companies have been valued at market, whereas equities held by our non-insurance subsidiaries or by the parent company were carried at their aggregate cost or market, whichever was lower. Now GAAP says that *all* common stocks should be carried at market, a rule we began following in the fourth quarter of 1993. This change produced a gain in Berkshire's reported net worth of about $172 million.

4. Finally, we issued some stock last year. In a transaction described in last year's Annual Report, we issued 3,944 shares in early January, 1993 upon the conversion of $46 million convertible debentures that we had called for redemption. Additionally, we issued 25,203 shares when we acquired Dexter Shoe, a purchase discussed later in this report. The overall result was that our shares outstanding increased by 29,147 and our net worth by about $478 million. Per-share book value also grew, because the shares issued in these transactions carried a price above their book value.

Of course, it's per-share intrinsic value, not book value, that counts. Book value is an accounting term that measures the capital, including retained earnings, that has been put into a business. Intrinsic value is a present-value estimate of the cash that can be taken out of a business during its remaining life. At most companies, the two values are unrelated. Berkshire, however, is an exception: Our book value, though significantly below our intrinsic value, serves as a useful device for tracking that key figure. In 1993, each measure grew by roughly 14%, advances that I would call satisfactory but unexciting.

These gains, however, were outstripped by a much larger gain — 39% — in Berkshire's market price. Over time, of course, market price and intrinsic value will arrive at about the same destination. But in the short run the two often diverge in a major way, a phenomenon I've discussed in the past. Two years ago, Coca-Cola and Gillette, both large holdings of ours, enjoyed market price increases that dramatically outpaced their earnings gains. In the 1991 Annual Report, I said that the stocks of these companies could not continuously overperform their businesses.

From 1991 to 1993, Coke and Gillette increased their annual operating earnings per share by 38% and 37% respectively, but their market prices moved up only 11% and 6%. In other words, the companies overperformed their stocks, a result that no doubt partly reflects Wall Street's new apprehension about brand names. Whatever the reason, what will count over time is the earnings performance of these companies. If they prosper, Berkshire will also prosper, though not in a lock-step manner.

Let me add a lesson from history: Coke went public in 1919 at $40 per share. By the end of 1920 the market, coldly reevaluating Coke's future prospects, had battered the stock down by more than 50%, to $19.50. At yearend 1993, that single share, with dividends reinvested, was worth more than $2.1 million. As Ben Graham said: "In the short-run, the market is a voting machine — reflecting a voter-registration test that requires only money, not intelligence or emotional stability — but in the long-run, the market is a weighing machine."

So how should Berkshire's over-performance in the market last year be viewed? Clearly, Berkshire was selling at a higher percentage of intrinsic value at the end of 1993 than was the case at the beginning of the year. On the other hand, in a world of 6% or 7% long-term interest rates, Berkshire's market price was not inappropriate if — and you should understand that this is a huge if — Charlie Munger, Berkshire's Vice Chairman, and I can attain our long-standing goal of increasing Berkshire's per-share intrinsic value at an average annual rate of 15%. We have not retreated from this goal. But we again emphasize, as we have for many years, that the growth in our capital base makes 15% an ever-more difficult target to hit.

What we have going for us is a growing collection of good-sized operating businesses that possess economic characteristics ranging from good to terrific, run by managers whose performance ranges from terrific to terrific. You need have no worries about this group.

The capital-allocation work that Charlie and I do at the parent company, using the funds that our managers deliver to us, has a less certain outcome: It is not easy to find new businesses and managers comparable to those we have. Despite that difficulty, Charlie and I relish the search, and we are happy to report an important success in 1993.

Dexter Shoe

What we did last year was build on our 1991 purchase of H. H. Brown, a superbly-run manufacturer of work shoes, boots and other footwear. Brown has been a real winner: Though we had high hopes to begin with, these expectations have been considerably exceeded thanks to Frank Rooney, Jim Issler and the talented managers who work with them. Because of our confidence in Frank's team, we next acquired Lowell Shoe, at the end of 1992. Lowell was a long-established manufacturer of women's and nurses' shoes, but its business needed some fixing. Again, results have surpassed our expectations. So we promptly jumped at the chance last year to acquire Dexter Shoe of Dexter, Maine, which manufactures popular-priced men's and women's shoes. Dexter, I can assure you, needs *no* fixing: It is one of the best-managed companies Charlie and I have seen in our business lifetimes.

Harold Alfond, who started working in a shoe factory at 25¢ an hour when he was 20, founded Dexter in 1956 with $10,000 of capital. He was joined in 1958 by Peter Lunder, his nephew. The two of them have since built a business that now produces over 7.5 million pairs of shoes annually, most of them made in Maine and the balance in Puerto Rico. As you probably know, the domestic shoe industry is generally thought to be unable to compete with imports from low-wage countries. But someone forgot to tell this to the ingenious managements of Dexter and H. H. Brown and to their skilled labor forces, which together make the U.S. plants of both companies highly competitive against all comers.

Dexter's business includes 77 retail outlets, located primarily in the Northeast. The company is also a major manufacturer of golf shoes, producing about 15% of U.S. output. Its bread and butter, though, is the manufacture of traditional shoes for traditional retailers, a job at which it excels: Last year both Nordstrom and J.C. Penney bestowed special awards upon Dexter for its performance as a supplier during 1992.

Our 1993 results include Dexter only from our date of merger, November 7th. In 1994, we expect Berkshire's shoe operations to have more than $550 million in sales, and we would not be surprised if the combined pre-tax earnings of these businesses topped $85 million. Five years ago we had no thought of getting into shoes. Now we have 7,200 employees in that industry, and I sing "There's No Business Like Shoe Business" as I drive to work. So much for strategic plans.

At Berkshire, we have no view of the future that dictates what businesses or industries we will enter. Indeed, we think it's usually poison for a corporate giant's shareholders if it embarks upon new ventures pursuant to some grand vision. We prefer instead to focus on the economic characteristics of businesses that we wish to own and the personal characteristics of managers with whom we wish to associate — and then to hope we get lucky in finding the two in combination. At Dexter, we did.

* * * * * * * * * * * * *

And now we pause for a short commercial: Though they owned a business jewel, we believe that Harold and Peter (who were not interested in cash) made a sound decision in exchanging their Dexter stock for shares of Berkshire. What they did, in effect, was trade a 100% interest in a single terrific business for a smaller interest in a large group of terrific businesses. They incurred no tax on this exchange and now own a security that can be easily used for charitable or personal gifts, or that can be converted to cash in amounts, and at times, of their own choosing. Should members of their families desire to, they can pursue varying financial paths without running into the complications that often arise when assets are concentrated in a private business.

For tax and other reasons, private companies also often find it difficult to diversify outside their industries. Berkshire, in contrast, can diversify with ease. So in shifting their ownership to Berkshire, Dexter's shareholders solved a reinvestment problem. Moreover, though Harold and Peter now have non-controlling shares in Berkshire, rather than controlling shares in Dexter, they know they will be treated as partners and that we will follow owner-oriented practices. If they elect to retain their Berkshire shares, their investment result from the merger date forward will exactly parallel my own result. Since I have a huge percentage of my net worth committed for life to Berkshire shares — and since the company will issue me neither restricted shares nor stock options — my gain-loss equation will always match that of all other owners.

Additionally, Harold and Peter know that at Berkshire we can keep our promises: There will be no changes of control or culture at Berkshire for many decades to come. Finally, and of paramount importance, Harold and Peter can be sure that they will get to run their business — an activity they dearly love — exactly as they did before the merger. At Berkshire, we do not tell .400 hitters how to swing.

What made sense for Harold and Peter probably makes sense for a few other owners of large private businesses. So, if you have a business that might fit, let me hear from you. Our acquisition criteria are set forth in the appendix on page 22.

Sources of Reported Earnings

The table below shows the major sources of Berkshire's reported earnings. In this presentation, amortization of Goodwill and other major purchase-price accounting adjustments are not charged against the specific businesses to which they apply, but are instead aggregated and shown separately. This procedure lets you view the earnings of our businesses as they would have been reported had we not purchased them. I've explained in past reports why this form of presentation seems to us to be more useful to investors and managers than one utilizing GAAP, which requires purchase-price adjustments to be made on a business-by-business basis. The total net earnings we show in the table are, of course, identical to the GAAP total in our audited financial statements.

	(000s omitted)			
	Pre-Tax Earnings		*Berkshire's Share of Net Earnings (after taxes and minority interests)*	
	1993	*1992*	*1993*	*1992*
Operating Earnings:				
Insurance Group:				
Underwriting	$ 30,876	$ (108,961)	$ 20,156	$ (71,141)
Net Investment Income	375,946	355,067	321,321	305,763
H. H. Brown, Lowell, and Dexter	43,755*	27,883	28,559	17,340
Buffalo News	50,962	47,863	29,696	28,163
Commercial & Consumer Finance	22,695	19,836	14,161	12,664
Fechheimer	13,442	13,698	6,931	7,267
Kirby	39,147	35,653	25,056	22,795
Nebraska Furniture Mart	21,540	17,110	10,398	8,072
Scott Fetzer Manufacturing Group	38,196	31,954	23,809	19,883
See's Candies	41,150	42,357	24,367	25,501
World Book	19,915	29,044	13,537	19,503
Purchase-Price Accounting & Goodwill Charges	(17,033)	(12,087)	(13,996)	(13,070)
Interest Expense**	(56,545)	(98,643)	(35,614)	(62,899)
Shareholder-Designated Contributions	(9,448)	(7,634)	(5,994)	(4,913)
Other	28,698	67,540	15,364	32,798
Operating Earnings	643,296	460,680	477,751	347,726
Sales of Securities	546,422	89,937	356,702	59,559
Tax Accruals Caused by New Accounting Rules	—	—	(146,332)	—
Total Earnings - All Entities	$1,189,718	$ 550,617	$ 688,121	$ 407,285

* *Includes Dexter's earnings only from the date it was acquired, November 7, 1993.*

***Excludes interest expense of Commercial and Consumer Finance businesses.*
In 1992 includes $22.5 million of premiums paid on the early redemption of debt.

A large amount of information about these businesses is given on pages 38-49, where you will also find our segment earnings reported on a GAAP basis. In addition, on pages 52-59, we have rearranged Berkshire's financial data into four segments on a non-GAAP basis, a presentation that corresponds to the way Charlie and I think about the company. Our intent is to supply you with the financial information that we would wish you to give us if our positions were reversed.

"Look-Through" Earnings

We've previously discussed look-through earnings, which we believe more accurately portray the earnings of Berkshire than does our GAAP result. As we calculate them, look-through earnings consist of: (1) the operating earnings reported in the previous section, plus; (2) the retained operating earnings of major investees that, under GAAP accounting, are not reflected in our profits, less; (3) an allowance for the tax that would be paid by Berkshire if these retained earnings of investees had instead been distributed to us. The "operating earnings" of which we speak here exclude capital gains, special accounting items and major restructuring charges.

Over time, our look-through earnings need to increase at about 15% annually if our intrinsic value is to grow at that rate. Last year, I explained that we had to increase these earnings to about $1.8 billion in the year 2000, were we to meet the 15% goal. Because we issued additional shares in 1993, the amount needed has risen to about $1.85 billion.

That is a tough goal, but one that we expect you to hold us to. In the past, we've criticized the managerial practice of shooting the arrow of performance and *then* painting the target, centering it on whatever point the arrow happened to hit. We will instead risk embarrassment by painting first and shooting later.

If we are to hit the bull's-eye, we will need markets that allow the purchase of businesses and securities on sensible terms. Right now, markets are difficult, but they can — and will — change in unexpected ways and at unexpected times. In the meantime, we'll try to resist the temptation to do something marginal simply because we are long on cash. There's no use running if you're on the wrong road.

The following table shows how we calculate look-through earnings, though I warn you that the figures are necessarily *very* rough. (The dividends paid to us by these investees have been included in the operating earnings itemized on page 8, mostly under "Insurance Group: Net Investment Income.")

Berkshire's Major Investees	Berkshire's Approximate Ownership at Yearend		Berkshire's Share of Undistributed Operating Earnings (in millions)	
	1993	1992	1993	1992
Capital Cities/ABC, Inc.	13.0%	18.2%	$ 83[2]	$ 70
The Coca-Cola Company	7.2%	7.1%	94	82
Federal Home Loan Mortgage Corp.	6.8%[1]	8.2%[1]	41[2]	29[2]
GEICO Corp.	48.4%	48.1%	76[3]	34[3]
General Dynamics Corp.	13.9%	14.1%	25	11[2]
The Gillette Company	10.9%	10.9%	44	38
Guinness PLC	1.9%	2.0%	8	7
The Washington Post Company	14.8%	14.6%	15	11
Wells Fargo & Company	12.2%	11.5%	53[2]	16[2]
Berkshire's share of undistributed earnings of major investees			$439	$298
Hypothetical tax on these undistributed investee earnings[4]			(61)	(42)
Reported operating earnings of Berkshire			478	348
Total look-through earnings of Berkshire			$856	$604

(1) Does not include shares allocable to the minority interest at Wesco
(2) Calculated on average ownership for the year
(3) Excludes realized capital gains, which have been both recurring and significant
(4) The tax rate used is 14%, which is the rate Berkshire pays on the dividends it receives

We have told you that we expect the undistributed, hypothetically-taxed earnings of our investees to produce at least equivalent gains in Berkshire's intrinsic value. To date, we have far exceeded that expectation. For example, in 1986 we bought three million shares of Capital Cities/ABC for $172.50 per share and late last year sold one-third of that holding for $630 per share. After paying 35% capital gains taxes, we realized a $297 million profit from the sale. In contrast, during the eight years we held these shares, the retained earnings of Cap Cities attributable to them — hypothetically taxed at a lower 14% in accordance with our look-through method — were only $152 million. In other words, we paid a much larger tax bill than our look-through presentations to you have assumed and nonetheless realized a gain that far exceeded the undistributed earnings allocable to these shares.

We expect such pleasant outcomes to recur often in the future and therefore believe our look-through earnings to be a conservative representation of Berkshire's true economic earnings.

Taxes

As our Cap Cities sale emphasizes, Berkshire is a substantial payer of federal income taxes. In aggregate, we will pay 1993 federal income taxes of $390 million, about $200 million of that attributable to operating earnings and $190 million to realized capital gains. Furthermore, our share of the 1993 federal and foreign income taxes paid by our investees is well over $400 million, a figure you don't see on our financial statements but that is nonetheless real. Directly and indirectly, Berkshire's 1993 federal income tax payments will be about ½ of 1% of the total paid last year by all American corporations.

Speaking for our own shares, Charlie and I have absolutely no complaint about these taxes. We know we work in a market-based economy that rewards our efforts far more bountifully than it does the efforts of others whose output is of equal or greater benefit to society. Taxation should, and does, partially redress this inequity. But we still remain extraordinarily well-treated.

Berkshire and its shareholders, in combination, would pay a much smaller tax if Berkshire operated as a partnership or "S" corporation, two structures often used for business activities. For a variety of reasons, that's not feasible for Berkshire to do. However, the penalty our corporate form imposes is mitigated — though far from eliminated — by our strategy of investing for the long term. Charlie and I would follow a buy-and-hold policy even if we ran a tax-exempt institution. We think it the soundest way to invest, and it also goes down the grain of our personalities. A third reason to favor this policy, however, is the fact that taxes are due only when gains are realized.

Through my favorite comic strip, Li'l Abner, I got a chance during my youth to see the benefits of delayed taxes, though I missed the lesson at the time. Making his readers feel superior, Li'l Abner bungled happily, but moronically, through life in Dogpatch. At one point he became infatuated with a New York temptress, Appassionatta Van Climax, but despaired of marrying her because he had only a single silver dollar and she was interested solely in millionaires. Dejected, Abner took his problem to Old Man Mose, the font of all knowledge in Dogpatch. Said the sage: Double your money 20 times and Appassionatta will be yours (1, 2, 4, 8. . . .1,048,576).

My last memory of the strip is Abner entering a roadhouse, dropping his dollar into a slot machine, and hitting a jackpot that spilled money all over the floor. Meticulously following Mose's advice, Abner picked up two dollars and went off to find his next double. Whereupon I dumped Abner and began reading Ben Graham.

Mose clearly was overrated as a guru: Besides failing to anticipate Abner's slavish obedience to instructions, he also forgot about taxes. Had Abner been subject, say, to the 35% federal tax rate that Berkshire pays, and had he managed one double annually, he would after 20 years only have accumulated $22,370. Indeed, had he kept on both getting his annual doubles and paying a 35% tax on each, he would have needed 7½ years more to reach the $1 million required to win Appassionatta.

But what if Abner had instead put his dollar in a single investment and held it until it doubled the same 27½ times? In that case, he would have realized about $200 million pre-tax or, after paying a $70 million tax in the final year, about $130 million after-tax. For that, Appassionatta would have crawled to Dogpatch. Of course, with 27½ years having passed, how Appassionatta would have looked to a fellow sitting on $130 million is another question.

What this little tale tells us is that tax-paying investors will realize a far, far greater sum from a single investment that compounds internally at a given rate than from a succession of investments compounding at the same rate. But I suspect many Berkshire shareholders figured that out long ago.

Insurance Operations

At this point in the report we've customarily provided you with a table showing the annual "combined ratio" of the insurance industry for the preceding decade. This ratio compares total insurance costs (losses incurred plus expenses) to revenue from premiums. For many years, the ratio has been above 100, a level indicating an underwriting loss. That is, the industry has taken in less money each year from its policyholders than it has had to pay for operating expenses and for loss events that occurred during the year.

Offsetting this grim equation is a happier fact: Insurers get to hold on to their policyholders' money for a time before paying it out. This happens because most policies require that premiums be prepaid and, more importantly, because it often takes time to resolve loss claims. Indeed, in the case of certain lines of insurance, such as product liability or professional malpractice, many years may elapse between the loss event and payment.

To oversimplify the matter somewhat, the total of the funds prepaid by policyholders and the funds earmarked for incurred-but-not-yet-paid claims is called "the float." In the past, the industry was able to suffer a combined ratio of 107 to 111 and still break even from its insurance writings because of the earnings derived from investing this float.

As interest rates have fallen, however, the value of float has substantially declined. Therefore, the data that we have provided in the past are no longer useful for year-to-year comparisons of industry profitability. A company writing at the same combined ratio now as in the 1980's today has a far less attractive business than it did then.

Only by making an analysis that incorporates both underwriting results and the current risk-free earnings obtainable from float can one evaluate the true economics of the business that a property-casualty insurer writes. Of course, the *actual* investment results that an insurer achieves from the use of both float and stockholders' funds is also of major importance and should be carefully examined when an investor is assessing managerial performance. But that should be a separate analysis from the one we are discussing here. The value of float funds — in effect, their transfer price as they move from the insurance operation to the investment operation — should be determined simply by the risk-free, long-term rate of interest.

On the next page we show the numbers that count in an evaluation of Berkshire's insurance business. We calculate our float — which we generate in exceptional amounts relative to our premium volume — by adding loss reserves, loss adjustment reserves and unearned premium reserves and then subtracting agent's balances, prepaid acquisition costs and deferred charges applicable to assumed reinsurance. Our cost of float is determined by our underwriting loss or profit. In those years when we have had an underwriting profit, which includes 1993, our cost of float has been negative, and we have determined our insurance earnings by adding underwriting profit to float income.

	(1) Underwriting Loss	(2) Average Float	Approximate Cost of Funds	Yearend Yield on Long-Term Govt. Bonds
	(In $ Millions)		(Ratio of 1 to 2)	
1967	profit	$17.3	less than zero	5.50%
1968	profit	19.9	less than zero	5.90%
1969	profit	23.4	less than zero	6.79%
1970	$ 0.37	32.4	1.14%	6.25%
1971	profit	52.5	less than zero	5.81%
1972	profit	69.5	less than zero	5.82%
1973	profit	73.3	less than zero	7.27%
1974	7.36	79.1	9.30%	8.13%
1975	11.35	87.6	12.96%	8.03%
1976	profit	102.6	less than zero	7.30%
1977	profit	139.0	less than zero	7.97%
1978	profit	190.4	less than zero	8.93%
1979	profit	227.3	less than zero	10.08%
1980	profit	237.0	less than zero	11.94%
1981	profit	228.4	less than zero	13.61%
1982	21.56	220.6	9.77%	10.64%
1983	33.87	231.3	14.64%	11.84%
1984	48.06	253.2	18.98%	11.58%
1985	44.23	390.2	11.34%	9.34%
1986	55.84	797.5	7.00%	7.60%
1987	55.43	1,266.7	4.38%	8.95%
1988	11.08	1,497.7	0.74%	9.00%
1989	24.40	1,541.3	1.58%	7.97%
1990	26.65	1,637.3	1.63%	8.24%
1991	119.59	1,895.0	6.31%	7.40%
1992	108.96	2,290.4	4.76%	7.39%
1993	profit	2,624.7	less than zero	6.35%

As you can see, in our insurance operation last year we had the use of $2.6 billion at no cost; in fact we were paid $31 million, our underwriting profit, to hold these funds. This sounds good — is good — but is far from as good as it sounds.

We temper our enthusiasm because we write a large volume of "super-cat" policies (which other insurance and reinsurance companies buy to recover part of the losses they suffer from mega-catastrophes) and because last year we had no losses of consequence from this activity. As that suggests, the truly catastrophic Midwestern floods of 1993 did not trigger super-cat losses, the reason being that very few flood policies are purchased from private insurers.

It would be fallacious, however, to conclude from this single-year result that the super-cat business is a wonderful one, or even a satisfactory one. A simple example will illustrate the fallacy: Suppose there is an event that occurs 25 times in every century. If you annually give 5-for-1 odds against its occurrence *that* year, you will have many more winning years than losers. Indeed, you may go a straight six, seven or more years without loss. You also will eventually go broke.

At Berkshire, we naturally believe we are obtaining adequate premiums and giving more like 3½-for-1 odds. But there is no way for us — or anyone else — to calculate the true odds on super-cat coverages. In fact, it will take decades for us to find out whether our underwriting judgment has been sound.

What we do know is that when a loss comes, it's likely to be a lulu. There may well be years when Berkshire will suffer losses from the super-cat business equal to three or four times what we earned from it in 1993. When Hurricane Andrew blew in 1992, we paid out about $125 million. Because we've since expanded our super-cat business, a similar storm today could cost us $600 million.

So far, we have been lucky in 1994. As I write this letter, we are estimating that our losses from the Los Angeles earthquake will be nominal. But if the quake had been a 7.5 instead of a 6.8, it would have been a different story.

Berkshire is ideally positioned to write super-cat policies. In Ajit Jain, we have by far the best manager in this business. Additionally, companies writing these policies need enormous capital, and our net worth is ten to twenty times larger than that of our main competitors. In most lines of insurance, huge resources aren't that important: An insurer can diversify the risks it writes and, if necessary, can lay off risks to reduce concentration in its portfolio. That isn't possible in the super-cat business. So these competitors are forced into offering far smaller limits than those we can provide. Were they bolder, they would run the risk that a mega-catastrophe — or a confluence of smaller catastrophes — would wipe them out.

One indication of our premier strength and reputation is that each of the four largest reinsurance companies in the world buys very significant reinsurance coverage from Berkshire. Better than anyone else, these giants understand that the test of a reinsurer is its ability and willingness to pay losses under trying circumstances, not its readiness to accept premiums when things look rosy.

One caution: There has recently been a substantial increase in reinsurance capacity. Close to $5 billion of equity capital has been raised by reinsurers, almost all of them newly-formed entities. Naturally these new entrants are hungry to write business so that they can justify the projections they utilized in attracting capital. This new competition won't affect our 1994 operations; we're filled up there, primarily with business written in 1993. But we are now seeing signs of price deterioration. If this trend continues, we will resign ourselves to much-reduced volume, keeping ourselves available, though, for the large, sophisticated buyer who requires a super-cat insurer with large capacity and a sure ability to pay losses.

In other areas of our insurance business, our homestate operation, led by Rod Eldred; our workers' compensation business, headed by Brad Kinstler; our credit-card operation, managed by the Kizer family; and National Indemnity's traditional auto and general liability business, led by Don Wurster, all achieved excellent results. In combination, these four units produced a significant underwriting profit and substantial float.

All in all, we have a first-class insurance business. Though its results will be highly volatile, this operation possesses an intrinsic value that exceeds its book value by a large amount — larger, in fact, than is the case at any other Berkshire business.

Common Stock Investments

Below we list our common stockholdings having a value of over $250 million. A small portion of these investments belongs to subsidiaries of which Berkshire owns less than 100%.

		12/31/93	
Shares	*Company*	*Cost*	*Market*
		(000s omitted)	
2,000,000	Capital Cities/ABC, Inc.	$ 345,000	$1,239,000
93,400,000	The Coca-Cola Company	1,023,920	4,167,975
13,654,600	Federal Home Loan Mortgage Corp. ("Freddie Mac")	307,505	681,023
34,250,000	GEICO Corp.	45,713	1,759,594
4,350,000	General Dynamics Corp.	94,938	401,287
24,000,000	The Gillette Company	600,000	1,431,000
38,335,000	Guinness PLC	333,019	270,822
1,727,765	The Washington Post Company	9,731	440,148
6,791,218	Wells Fargo & Company	423,680	878,614

Considering the similarity of this year's list and the last, you may decide your management is hopelessly comatose. But we continue to think that it is usually foolish to part with an interest in a business that is both understandable and durably wonderful. Business interests of that kind are simply too hard to replace.

Interestingly, corporate managers have no trouble understanding that point when they are focusing on a business they operate: A parent company that owns a subsidiary with superb long-term economics is not likely to sell that entity regardless of price. "Why," the CEO would ask, "should I part with my crown jewel?" Yet that same CEO, when it comes to running his personal investment portfolio, will offhandedly — and even impetuously — move from business to business when presented with no more than superficial arguments by his broker for doing so. The worst of these is perhaps, "You can't go broke taking a profit." Can you imagine a CEO using this line to urge his board to sell a star subsidiary? In our view, what makes sense in business also makes sense in stocks: An investor should ordinarily hold a small piece of an outstanding business with the same tenacity that an owner would exhibit if he owned all of that business.

Earlier I mentioned the financial results that could have been achieved by investing $40 in The Coca-Cola Co. in 1919. In 1938, more than 50 years after the introduction of Coke, and long after the drink was firmly established as an American icon, *Fortune* did an excellent story on the company. In the second paragraph the writer reported: "Several times every year a weighty and serious investor looks long and with profound respect at Coca-Cola's record, but comes regretfully to the conclusion that he is looking too late. The specters of saturation and competition rise before him."

Yes, competition there was in 1938 and in 1993 as well. But it's worth noting that in 1938 The Coca-Cola Co. sold 207 million cases of soft drinks (if its gallonage then is converted into the 192-ounce cases used for measurement today) and in 1993 it sold about 10.7 billion cases, a 50-fold increase in physical volume from a company that in 1938 was already dominant in its very major industry. Nor was the party over in 1938 for an investor: Though the $40 invested in 1919 in one share had (with dividends reinvested) turned into $3,277 by the end of 1938, a fresh $40 then invested in Coca-Cola stock would have grown to $25,000 by yearend 1993.

I can't resist one more quote from that 1938 *Fortune* story: "It would be hard to name any company comparable in size to Coca-Cola and selling, as Coca-Cola does, an unchanged product that can point to a ten-year record anything like Coca-Cola's." In the 55 years that have since passed, Coke's product line has broadened somewhat, but it's remarkable how well that description still fits.

Charlie and I decided long ago that in an investment lifetime it's just too hard to make hundreds of smart decisions. That judgment became ever more compelling as Berkshire's capital mushroomed and the universe of investments that could significantly affect our results shrank dramatically. Therefore, we adopted a strategy that required our being smart — and not too smart at that — only a very few times. Indeed, we'll now settle for one good idea a year. (Charlie says it's my turn.)

The strategy we've adopted precludes our following standard diversification dogma. Many pundits would therefore say the strategy must be riskier than that employed by more conventional investors. We disagree. We believe that a policy of portfolio concentration may well *decrease* risk if it raises, as it should, both the intensity with which an investor thinks about a business and the comfort-level he must feel with its economic characteristics before buying into it. In stating this opinion, we define risk, using dictionary terms, as "the possibility of loss or injury."

Academics, however, like to define investment "risk" differently, averring that it is the relative volatility of a stock or portfolio of stocks — that is, their volatility as compared to that of a large universe of stocks. Employing data bases and statistical skills, these academics compute with precision the "beta" of a stock — its relative volatility in the past — and then build arcane investment and capital-allocation theories around this calculation. In their hunger for a single statistic to measure risk, however, they forget a fundamental principle: It is better to be approximately right than precisely wrong.

For owners of a business — and that's the way we think of shareholders — the academics' definition of risk is far off the mark, so much so that it produces absurdities. For example, under beta-based theory, a stock that has dropped very sharply compared to the market — as had Washington Post when we bought

it in 1973 — becomes "riskier" at the lower price than it was at the higher price. Would that description have then made *any* sense to someone who was offered the entire company at a vastly-reduced price?

In fact, the true investor *welcomes* volatility. Ben Graham explained why in Chapter 8 of *The Intelligent Investor.* There he introduced "Mr. Market," an obliging fellow who shows up every day to either buy from you or sell to you, whichever you wish. The more manic-depressive this chap is, the greater the opportunities available to the investor. That's true because a wildly fluctuating market means that irrationally low prices will periodically be attached to solid businesses. It is impossible to see how the availability of such prices can be thought of as increasing the hazards for an investor who is totally free to either ignore the market or exploit its folly.

In assessing risk, a beta purist will disdain examining what a company produces, what its competitors are doing, or how much borrowed money the business employs. He may even prefer not to know the company's name. What he treasures is the price history of its stock. In contrast, we'll happily forgo knowing the price history and instead will seek whatever information will further our understanding of the company's business. After we buy a stock, consequently, we would not be disturbed if markets closed for a year or two. We don't need a daily quote on our 100% position in See's or H. H. Brown to validate our well-being. Why, then, should we need a quote on our 7% interest in Coke?

In our opinion, the real risk that an investor must assess is whether his aggregate after-tax receipts from an investment (including those he receives on sale) will, over his prospective holding period, give him at least as much purchasing power as he had to begin with, plus a modest rate of interest on that initial stake. Though this risk cannot be calculated with engineering precision, it can in some cases be judged with a degree of accuracy that is useful. The primary factors bearing upon this evaluation are:

1) The certainty with which the long-term economic characteristics of the business can be evaluated;

2) The certainty with which management can be evaluated, both as to its ability to realize the full potential of the business and to wisely employ its cash flows;

3) The certainty with which management can be counted on to channel the rewards from the business to the shareholders rather than to itself;

4) The purchase price of the business;

5) The levels of taxation and inflation that will be experienced and that will determine the degree by which an investor's purchasing-power return is reduced from his gross return.

These factors will probably strike many analysts as unbearably fuzzy, since they cannot be extracted from a data base of any kind. But the difficulty of precisely quantifying these matters does not negate their importance nor is it insuperable. Just as Justice Stewart found it impossible to formulate a test for obscenity but nevertheless asserted, "I know it when I see it," so also can investors — in an inexact but useful way — "see" the risks inherent in certain investments without reference to complex equations or price histories.

Is it really so difficult to conclude that Coca-Cola and Gillette possess far less business risk over the long term than, say, *any* computer company or retailer? Worldwide, Coke sells about 44% of all soft drinks, and Gillette has more than a 60% share (in value) of the blade market. Leaving aside chewing gum, in which Wrigley is dominant, I know of no other significant businesses in which the leading company has long enjoyed such global power.

Moreover, both Coke and Gillette have actually increased their worldwide shares of market in recent years. The might of their brand names, the attributes of their products, and the strength of their distribution systems give them an enormous competitive advantage, setting up a protective moat around their economic castles. The average company, in contrast, does battle daily without any such means of protection. As Peter Lynch says, stocks of companies selling commodity-like products should come with a warning label: "Competition may prove hazardous to human wealth."

The competitive strengths of a Coke or Gillette are obvious to even the casual observer of business. Yet the beta of their stocks is similar to that of a great many run-of-the-mill companies who possess little or no competitive advantage. Should we conclude from this similarity that the competitive strength of Coke and Gillette gains them nothing when business risk is being measured? Or should we conclude that the risk in owning a piece of a company — its stock — is somehow divorced from the long-term risk inherent in its business operations? We believe neither conclusion makes sense and that equating beta with investment risk also makes no sense.

The theoretician bred on beta has no mechanism for differentiating the risk inherent in, say, a single-product toy company selling pet rocks or hula hoops from that of another toy company whose sole product is Monopoly or Barbie. But it's quite possible for ordinary investors to make such distinctions if they have a reasonable understanding of consumer behavior and the factors that create long-term competitive strength or weakness. Obviously, every investor will make mistakes. But by confining himself to a relatively few, easy-to-understand cases, a reasonably intelligent, informed and diligent person can judge investment risks with a useful degree of accuracy.

In many industries, of course, Charlie and I can't determine whether we are dealing with a "pet rock" or a "Barbie." We couldn't solve this problem, moreover, even if we were to spend years intensely studying those industries. Sometimes our own intellectual shortcomings would stand in the way of understanding, and in other cases the nature of the industry would be the roadblock. For example, a business that must deal with fast-moving technology is not going to lend itself to reliable evaluations of its long-term economics. Did we foresee thirty years ago what would transpire in the television-manufacturing or computer industries? Of course not. (Nor did most of the investors and corporate managers who enthusiastically entered those industries.) Why, then, should Charlie and I now think we can predict the future of other rapidly-evolving businesses? We'll stick instead with the easy cases. Why search for a needle buried in a haystack when one is sitting in plain sight?

Of course, some investment strategies — for instance, our efforts in arbitrage over the years — require wide diversification. If significant risk exists in a single transaction, overall risk should be reduced by making that purchase one of many mutually-independent commitments. Thus, you may consciously purchase a risky investment — one that indeed has a significant possibility of causing loss or injury — if you believe that your gain, weighted for probabilities, considerably exceeds your loss, comparably weighted, and if you can commit to a number of similar, but unrelated opportunities. Most venture capitalists employ this strategy. Should you choose to pursue this course, you should adopt the outlook of the casino that owns a roulette wheel, which will want to see lots of action because it is favored by probabilities, but will refuse to accept a single, huge bet.

Another situation requiring wide diversification occurs when an investor who does not understand the economics of specific businesses nevertheless believes it in his interest to be a long-term owner of American industry. That investor should both own a large number of equities and space out his purchases. By periodically investing in an index fund, for example, the know-nothing investor can actually out-perform most investment professionals. Paradoxically, when "dumb" money acknowledges its limitations, it ceases to be dumb.

On the other hand, if you are a know-*something* investor, able to understand business economics and to find five to ten sensibly-priced companies that possess important long-term competitive advantages, conventional diversification makes no sense for you. It is apt simply to hurt your results and increase your risk. I cannot understand why an investor of that sort elects to put money into a business that is his 20th favorite rather than simply adding that money to his top choices — the businesses he understands best and that present the least risk, along with the greatest profit potential. In the words of the prophet Mae West: "Too much of a good thing can be wonderful."

Corporate Governance

At our annual meetings, someone usually asks "What happens to this place if you get hit by a truck?" I'm glad they are still asking the question in this form. It won't be too long before the query becomes: "What happens to this place if you *don't* get hit by a truck?"

Such questions, in any event, raise a reason for me to discuss corporate governance, a hot topic during the past year. In general, I believe that directors have stiffened their spines recently and that shareholders are now being treated somewhat more like true owners than was the case not long ago. Commentators on corporate governance, however, seldom make any distinction among three fundamentally different manager/owner situations that exist in publicly-held companies. Though the legal responsibility of directors is identical throughout, their ability to effect change differs in each of the cases. Attention usually falls on the first case, because it prevails on the corporate scene. Since Berkshire falls into the second category, however, and will someday fall into the third, we will discuss all three variations.

The first, and by far most common, board situation is one in which a corporation has no controlling shareholder. In that case, I believe directors should behave as if there is a single absentee owner, whose long-term interest they should try to further in all proper ways. Unfortunately, "long-term" gives directors a lot of wiggle room. If they lack either integrity or the ability to think independently, directors can do great violence to shareholders while still claiming to be acting in their long-term interest. But assume the board is functioning well and must deal with a management that is mediocre or worse. Directors then have the responsibility for changing that management, just as an intelligent owner would do if he were present. And if able but greedy managers over-reach and try to dip too deeply into the shareholders' pockets, directors must slap their hands.

In this plain-vanilla case, a director who sees something he doesn't like should attempt to persuade the other directors of his views. If he is successful, the board will have the muscle to make the appropriate change. Suppose, though, that the unhappy director can't get other directors to agree with him. He should then feel free to make his views known to the absentee owners. Directors seldom do that, of course. The temperament of many directors would in fact be incompatible with critical behavior of that sort. But I see nothing improper in such actions, assuming the issues are serious. Naturally, the complaining director can expect a vigorous rebuttal from the unpersuaded directors, a prospect that should discourage the dissenter from pursuing trivial or non-rational causes.

For the boards just discussed, I believe the directors ought to be relatively few in number — say, ten or less — and ought to come mostly from the outside. The outside board members should establish standards for the CEO's performance and should also periodically meet, without his being present, to evaluate his performance against those standards.

The requisites for board membership should be business savvy, interest in the job, and owner-orientation. Too often, directors are selected simply because they are prominent or add diversity to the board. That practice is a mistake. Furthermore, mistakes in selecting directors are particularly serious because appointments are so hard to undo: The pleasant but vacuous director need never worry about job security.

The second case is that existing at Berkshire, where the controlling owner is also the manager. At some companies, this arrangement is facilitated by the existence of two classes of stock endowed with disproportionate voting power. In these situations, it's obvious that the board does not act as an agent between owners and management and that the directors cannot effect change except through persuasion. Therefore, if the owner/manager is mediocre or worse — or is over-reaching — there is little a director can do about it except object. If the directors having no connections to the owner/manager make a unified argument, it may well have some effect. More likely it will not.

If change does not come, and the matter is sufficiently serious, the outside directors should resign. Their resignation will signal their doubts about management, and it will emphasize that no outsider is in a position to correct the owner/manager's shortcomings.

The third governance case occurs when there is a controlling owner who is not involved in management. This case, examples of which are Hershey Foods and Dow Jones, puts the outside directors in a potentially useful position. If they become unhappy with either the competence or integrity of the manager, they can go directly to the owner (who may also be on the board) and report their dissatisfaction. This situation is ideal for an outside director, since he need make his case only to a single, presumably interested owner, who can forthwith effect change if the argument is persuasive. Even so, the dissatisfied director has only that single course of action. If he remains unsatisfied about a critical matter, he has no choice but to resign.

Logically, the third case should be the most effective in insuring first-class management. In the second case the owner is not going to fire himself, and in the first case, directors often find it very difficult to deal with mediocrity or mild over-reaching. Unless the unhappy directors can win over a majority of the board — an awkward social and logistical task, particularly if management's behavior is merely odious, not egregious — their hands are effectively tied. In practice, directors trapped in situations of this kind usually convince themselves that by staying around they can do at least some good. Meanwhile, management proceeds unfettered.

In the third case, the owner is neither judging himself nor burdened with the problem of garnering a majority. He can also insure that outside directors are selected who will bring useful qualities to the board. These directors, in turn, will know that the good advice they give will reach the right ears, rather than being stifled by a recalcitrant management. If the controlling owner is intelligent and self-confident, he will make decisions in respect to management that are meritocratic and pro-shareholder. Moreover — and this is critically important — he can readily correct any mistake he makes.

At Berkshire we operate in the second mode now and will for as long as I remain functional. My health, let me add, is excellent. For better or worse, you are likely to have me as an owner/manager for some time.

After my death, all of my stock will go to my wife, Susie, should she survive me, or to a foundation if she dies before I do. In neither case will taxes and bequests require the sale of consequential amounts of stock.

When my stock is transferred to either my wife or the foundation, Berkshire will enter the third governance mode, going forward with a vitally interested, but non-management, owner and with a management that must perform for that owner. In preparation for that time, Susie was elected to the board a few years ago, and in 1993 our son, Howard, joined the board. These family members will not be managers of the company in the future, but they will represent the controlling interest should anything happen to me. Most of our other directors are also significant owners of Berkshire stock, and each has a strong owner-orientation. All in all, we're prepared for "the truck."

Shareholder-Designated Contributions

About 97% of all eligible shares participated in Berkshire's 1993 shareholder-designated contributions program. Contributions made through the program were $9.4 million and 3,110 charities were recipients.

Berkshire's practice in respect to discretionary philanthropy — as contrasted to its policies regarding contributions that are clearly related to the company's business activities — differs significantly from that of other publicly-held corporations. There, most corporate contributions are made pursuant to the wishes of the CEO (who often will be responding to social pressures), employees (through matching gifts), or directors (through matching gifts or requests they make of the CEO).

At Berkshire, we believe that the company's money is the owners' money, just as it would be in a closely-held corporation, partnership, or sole proprietorship. Therefore, if funds are to be given to causes unrelated to Berkshire's business activities, it is the charities favored by our owners that should receive them. We've yet to find a CEO who believes he should personally fund the charities favored by his shareholders. Why, then, should they foot the bill for his picks?

Let me add that our program is easy to administer. Last fall, for two months, we borrowed one person from National Indemnity to help us implement the instructions that came from our 7,500 registered shareholders. I'd guess that the average corporate program in which employee gifts are matched incurs far greater administrative costs. Indeed, our *entire* corporate overhead is less than half the size of our charitable contributions. (Charlie, however, insists that I tell you that $1.4 million of our $4.9 million overhead is attributable to our corporate jet, The Indefensible.)

Below is a list showing the largest categories to which our shareholders have steered their contributions.

(a) 347 churches and synagogues received 569 gifts
(b) 283 colleges and universities received 670 gifts
(c) 244 K-12 schools (about two-thirds secular, one-third religious) received 525 gifts
(d) 288 institutions dedicated to art, culture or the humanities received 447 gifts
(e) 180 religious social-service organizations (split about equally between Christian and Jewish) received 411 gifts
(f) 445 secular social-service organizations (about 40% youth-related) received 759 gifts
(g) 153 hospitals received 261 gifts
(h) 186 health-related organizations (American Heart Association, American Cancer Society, etc.) received 320 gifts

Three things about this list seem particularly interesting to me. First, to some degree it indicates what people choose to give money to when they are acting of their own accord, free of pressure from solicitors or emotional appeals from charities. Second, the contributions programs of publicly-held companies almost never allow gifts to churches and synagogues, yet clearly these institutions are what many shareholders would like to support. Third, the gifts made by our shareholders display conflicting philosophies: 130 gifts were directed to organizations that believe in making abortions readily available for women and 30 gifts were directed to organizations (other than churches) that discourage or are opposed to abortion.

Last year I told you that I was thinking of raising the amount that Berkshire shareholders can give under our designated-contributions program and asked for your comments. We received a few well-written letters opposing the entire idea, on the grounds that it was our job to run the business and not our job to force shareholders into making charitable gifts. Most of the shareholders responding, however, noted the tax efficiency of the plan and urged us to increase the designated amount. Several shareholders who have given stock to their children or grandchildren told me that they consider the program a particularly good way to get youngsters thinking at an early age about the subject of giving. These people, in other words, perceive the program to be an educational, as well as philanthropic, tool. The bottom line is that we did raise the amount in 1993, from $8 per share to $10.

In addition to the shareholder-designated contributions that Berkshire distributes, our operating businesses make contributions, including merchandise, averaging about $2.5 million annually. These contributions support local charities, such as The United Way, and produce roughly commensurate benefits for our businesses.

We suggest that new shareholders read the description of our shareholder-designated contributions program that appears on pages 50-51. *To participate in future programs, you must make sure your shares are registered in the name of the actual owner, not in the nominee name of a broker, bank or depository. Shares not so registered on August 31, 1994 will be ineligible for the 1994 program.*

A Few Personal Items

Mrs. B — Rose Blumkin — had her 100th birthday on December 3, 1993. (The candles cost more than the cake.) That was a day on which the store was scheduled to be open in the evening. Mrs. B, who works seven days a week, for however many hours the store operates, found the proper decision quite obvious: She simply postponed her party until an evening when the store was closed.

Mrs. B's story is well-known but worth telling again. She came to the United States 77 years ago, unable to speak English and devoid of formal schooling. In 1937, she founded the Nebraska Furniture Mart

with $500. Last year the store had sales of $200 million, a larger amount by far than that recorded by any other home furnishings store in the United States. Our part in all of this began ten years ago when Mrs. B sold control of the business to Berkshire Hathaway, a deal we completed without obtaining audited financial statements, checking real estate records, or getting any warranties. In short, her word was good enough for us.

Naturally, I was delighted to attend Mrs. B's birthday party. After all, she's promised to attend *my* 100th.

* * * * * * * * * * * *

Katharine Graham retired last year as the chairman of The Washington Post Company, having relinquished the CEO title three years ago. In 1973, we purchased our stock in her company for about $10 million. Our holding now garners $7 million a year in dividends and is worth over $400 million. At the time of our purchase, we knew that the economic prospects of the company were good. But equally important, Charlie and I concluded that Kay would prove to be an outstanding manager and would treat all shareholders honorably. That latter consideration was particularly important because The Washington Post Company has two classes of stock, a structure that we've seen some managers abuse.

All of our judgments about this investment have been validated by events. Kay's skills as a manager were underscored this past year when she was elected by *Fortune's* Board of Editors to the Business Hall of Fame. On behalf of our shareholders, Charlie and I had long ago put her in Berkshire's Hall of Fame.

* * * * * * * * * * * *

Another of last year's retirees was Don Keough of Coca-Cola, although, as he puts it, his retirement lasted "about 14 hours." Don is one of the most extraordinary human beings I've ever known — a man of enormous business talent, but, even more important, a man who brings out the absolute best in everyone lucky enough to associate with him. Coca-Cola wants its product to be present at the happy times of a person's life. Don Keough, as an individual, invariably increases the happiness of those around him. It's impossible to think about Don without feeling good.

I will edge up to how I met Don by slipping in a plug for my neighborhood in Omaha: Though Charlie has lived in California for 45 years, his home as a boy was about 200 feet away from the house where I now live; my wife, Susie, grew up 1½ blocks away; and we have about 125 Berkshire shareholders in the zip code. As for Don, in 1958 he bought the house directly across the street from mine. He was then a coffee salesman with a big family and a small income.

The impressions I formed in those days about Don were a factor in my decision to have Berkshire make a record $1 billion investment in Coca-Cola in 1988-89. Roberto Goizueta had become CEO of Coke in 1981, with Don alongside as his partner. The two of them took hold of a company that had stagnated during the previous decade and moved it from $4.4 billion of market value to $58 billion in less than 13 years. What a difference a pair of managers like this makes, even when their product has been around for 100 years.

* * * * * * * * * * * *

Frank Rooney did double duty last year. In addition to leading H. H. Brown to record profits — 35% above the 1992 high — he also was key to our merger with Dexter.

Frank has known Harold Alfond and Peter Lunder for decades, and shortly after our purchase of H. H. Brown, told me what a wonderful operation they managed. He encouraged us to get together and in due course we made a deal. Frank told Harold and Peter that Berkshire would provide an ideal corporate "home" for Dexter, and that assurance undoubtedly contributed to their decision to join with us.

I've told you in the past of Frank's extraordinary record in building Melville Corp. during his 23 year tenure as CEO. Now, at 72, he's setting an even faster pace at Berkshire. Frank has a low-key, relaxed style, but don't let that fool you. When he swings, the ball disappears far over the fence.

The Annual Meeting

This year the Annual Meeting will be held at the Orpheum Theater in downtown Omaha at 9:30 a.m. on Monday, April 25, 1994. A record 2,200 people turned up for the meeting last year, but the theater can handle many more. We will have a display in the lobby featuring many of our consumer products — candy, spray guns, shoes, cutlery, encyclopedias, and the like. Among my favorites slated to be there is a See's candy assortment that commemorates Mrs. B's 100th birthday and that features her picture, rather than Mrs. See's, on the package.

We recommend that you promptly get hotel reservations at one of these hotels: (1) The Radisson-Redick Tower, a small (88 rooms) but nice hotel across the street from the Orpheum; (2) the much larger Red Lion Hotel, located about a five-minute walk from the Orpheum; or (3) the Marriott, located in West Omaha about 100 yards from Borsheim's, which is a twenty-minute drive from downtown. We will have buses at the Marriott that will leave at 8:30 and 8:45 for the meeting and return after it ends.

An attachment to our proxy material explains how you can obtain the card you will need for admission to the meeting. With the admission card, we will enclose information about parking facilities located near the Orpheum. If you are driving, come a little early. Nearby lots fill up quickly and you may have to walk a few blocks.

As usual, we will have buses to take you to Nebraska Furniture Mart and Borsheim's after the meeting and to take you from there to downtown hotels or the airport later. Those of you arriving early can visit the Furniture Mart any day of the week; it is open from 10 a.m. to 5:30 p.m. on Saturdays and from noon to 5:30 p.m. on Sundays. Borsheim's normally is closed on Sunday but will be open for shareholders and their guests from noon to 6 p.m. on Sunday, April 24.

In past trips to Borsheim's, many of you have met Susan Jacques. Early in 1994, Susan was made President and CEO of the company, having risen in 11 years from a $4-an-hour job that she took at the store when she was 23. Susan will be joined at Borsheim's on Sunday by many of the managers of our other businesses, and Charlie and I will be there as well.

On the previous evening, Saturday, April 23, there will be a baseball game at Rosenblatt Stadium between the Omaha Royals and the Nashville Sounds (which could turn out to be Michael Jordan's team). As you may know, a few years ago I bought 25% of the Royals (a capital-allocation decision for which I will not become famous) and this year the league has cooperatively scheduled a home stand at Annual Meeting time.

I will throw the first pitch on the 23rd, and it's a certainty that I will improve on last year's humiliating performance. On that occasion, the catcher inexplicably called for my "sinker" and I dutifully delivered a pitch that barely missed my foot. This year, I will go with my high hard one regardless of what the catcher signals, so bring your speed-timing devices. The proxy statement will include information about obtaining tickets to the game. I regret to report that you won't have to buy them from scalpers.

March 1, 1994

Warren E. Buffett
Chairman of the Board

ACQUISITION CRITERIA

We are eager to hear about businesses that meet all of the following criteria:

(1) Large purchases (at least $10 million of after-tax earnings),
(2) Demonstrated consistent earning power (future projections are of no interest to us, nor are "turnaround" situations),
(3) Businesses earning good returns on equity while employing little or no debt,
(4) Management in place (we can't supply it),
(5) Simple businesses (if there's lots of technology, we won't understand it),
(6) An offering price (we don't want to waste our time or that of the seller by talking, even preliminarily, about a transaction when price is unknown).

The larger the company, the greater will be our interest: We would like to make an acquisition in the $2-3 billion range.

We will not engage in unfriendly takeovers. We can promise complete confidentiality and a very fast answer — customarily within five minutes — as to whether we're interested. We prefer to buy for cash, but will consider issuing stock when we receive as much in intrinsic business value as we give.

Our favorite form of purchase is one fitting the pattern through which we acquired Nebraska Furniture Mart, Fechheimer's, Borsheim's and Central States Indemnity. In cases like these, the company's owner-managers wish to generate significant amounts of cash, sometimes for themselves, but often for their families or inactive shareholders. At the same time, these managers wish to remain significant owners who continue to run their companies just as they have in the past. We think we offer a particularly good fit for owners with such objectives and we invite potential sellers to check us out by contacting people with whom we have done business in the past.

Charlie and I frequently get approached about acquisitions that don't come close to meeting our tests: We've found that if you advertise an interest in buying collies, a lot of people will call hoping to sell you their cocker spaniels. A line from a country song expresses our feeling about new ventures, turnarounds, or auction-like sales: "When the phone don't ring, you'll know it's me."

Besides being interested in the purchase of businesses as described above, we are also interested in the negotiated purchase of large, but not controlling, blocks of stock comparable to those we hold in Capital Cities, Salomon, Gillette, USAir, Champion, and American Express. *We are not interested, however, in receiving suggestions about purchases we might make in the general stock market.*

Selected Financial Data for the Past Five Years

(dollars in thousands, except per share data)

	1993	1992	1991	1990	1989
Revenues:					
Sales and service revenues	$1,962,862	$1,774,436	$1,651,134	$1,580,074	$1,526,459
Insurance premiums earned	656,341	664,293	776,413	591,540	394,279
Interest and dividend income	479,806	495,409	481,793	450,295	331,452
Realized investment gain	546,422	89,937	192,478	33,989	223,810
Sundry	8,052	5,265	4,178	3,574	7,892
Total revenues	$3,653,483	$3,029,340	$3,105,996	$2,659,472	$2,483,892
Earnings:					
Before realized investment gain and cumulative effect of accounting change	$ 402,403[1]	$ 347,726	$ 315,753	$ 370,745	$ 299,902
Realized investment gain	356,702	59,559	124,155	23,348	147,575
Cumulative effect of change in accounting for income taxes	(70,984)	—	—	—	—
Net earnings	$ 688,121	$ 407,285	$ 439,908	$ 394,093	$ 447,477
Earnings per share:					
Before realized investment gain and cumulative effect of accounting change	$348.03	$303.29	$275.42	$323.39	$262.46
Realized investment gain	308.50	51.95	108.30	20.36	127.55
Cumulative effect of change in accounting for income taxes	(61.39)	—	—	—	—
Net earnings	$595.14	$355.24	$383.72	$343.75	$390.01
Year-end data:					
Total assets	$19,520,469	$17,131,998	$14,461,902	$10,670,423	$9,459,594
Borrowings under investment agreements and other debt [2]	972,389	1,154,697	1,100,464	1,082,265	847,923
Shareholders' equity	10,428,374	8,896,331	7,379,918	5,287,454	4,925,126
Common shares outstanding, in thousands	1,178	1,149	1,146	1,146	1,146
Shareholders' equity per outstanding share	$ 8,854	$ 7,745	$ 6,437	$ 4,612	$ 4,296

(1) *Includes a charge of $75,348 representing the effect of the change in federal income tax rates on deferred taxes applicable to unrealized appreciation.*

(2) *Excludes borrowings of commercial and consumer finance businesses.*

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
Berkshire Hathaway Inc.

We have audited the accompanying consolidated balance sheets of Berkshire Hathaway Inc. and subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of earnings, and cash flows for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Berkshire Hathaway Inc. and subsidiaries as of December 31, 1993 and 1992, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 1993 the Company changed its method of accounting for income taxes and investments to conform with recent pronouncements of the Financial Accounting Standards Board.

Deloitte & Touche

March 7, 1994

Deloitte Touche
Tohmatsu
International

BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(dollars in thousands except per share amounts)

	December 31,	
	1993	**1992**
ASSETS		
Cash and cash equivalents	$ 1,838,103	$ 1,127,996
Investments:		
Obligations with fixed maturities	2,108,602	2,033,681
Marketable equity securities	12,540,197	11,652,654
Receivables	525,285	608,352
Inventories	378,386	282,141
Properties and equipment	259,736	224,510
Assets of commercial and consumer finance businesses	840,744	442,671
Other assets	1,029,416	759,993
	$19,520,469	$17,131,998
LIABILITIES AND SHAREHOLDERS' EQUITY		
Losses and loss adjustment expenses	$ 3,128,809	$ 3,151,607
Unearned premiums	315,750	231,813
Accounts payable, accruals and other liabilities	738,897	627,296
Income taxes	3,030,189	2,517,186
Borrowings under investment agreements and other debt	972,389	1,154,697
Liabilities of commercial and consumer finance businesses	723,782	423,545
	8,909,816	8,106,144
Minority shareholders' interests	182,279	129,523
Shareholders' equity:		
Common stock of $5 par value. Authorized 1,500,000 shares; Issued 1,381,308 shares in 1993; 1,377,364 shares in 1992	6,907	6,887
Capital in excess of par value	656,074	182,264
Unrealized appreciation of marketable equity securities, net	5,412,652	5,047,219
Retained earnings	4,390,375	3,702,254
	10,466,008	8,938,624
Less common stock in treasury, at cost (203,558 shares in 1993; 228,761 shares in 1992)	37,634	42,293
Total shareholders' equity	10,428,374	8,896,331
	$19,520,469	$17,131,998

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED STATEMENTS OF EARNINGS
(dollars in thousands except per share amounts)

	Year Ended December 31,		
	1993	1992	1991
Revenues:			
Sales and service revenues	$1,962,862	$1,774,436	$1,651,134
Insurance premiums earned	656,341	664,293	776,413
Interest and dividend income	479,806	495,409	481,793
Realized investment gain	546,422	89,937	192,478
Sundry income	8,052	5,265	4,178
	3,653,483	3,029,340	3,105,996
Cost and expenses:			
Cost of products and services sold	1,180,642	1,049,721	939,011
Insurance losses and loss adjustment expenses	456,098	687,625	827,169
Insurance underwriting expenses	169,367	85,628	68,837
Selling, general and administrative expenses	576,909	531,253	556,146
Interest expense	80,749	124,496	121,847
	2,463,765	2,478,723	2,513,010
Earnings before income taxes, minority interest and cumulative effect of accounting change	1,189,718	550,617	592,986
Income taxes -			
Other than effect of change in income tax rate on deferred taxes applicable to unrealized appreciation	345,302	138,089	142,058
Effect of change in income tax rate on deferred taxes applicable to unrealized appreciation	75,348	—	—
Minority interest	9,963	5,243	11,020
Earnings before cumulative effect of accounting change	759,105	407,285	439,908
Cumulative effect of change in accounting for income taxes	(70,984)	—	—
Net earnings	$ 688,121	$ 407,285	$ 439,908
Average shares outstanding	1,156,243	1,146,492	1,146,441
Earnings per share:			
Before cumulative effect of accounting change	$656	$355	$384
Cumulative effect of change in accounting for income taxes	(61)	—	—
Net earnings	$595	$355	$384

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	1993	1992	1991
Cash flows from operating activities:			
Net income	$ 688,121	$ 407,285	$ 439,908
Adjustments to reconcile net income to cash flows from operating activities:			
Cumulative effect of accounting change	70,984	—	—
Effect of change in income tax rate on deferred taxes applicable to unrealized appreciation	75,348	—	—
Depreciation and amortization	50,180	41,074	37,175
Realized investment gain	(546,422)	(89,937)	(192,478)
Minority interests	9,963	5,243	11,020
Changes in assets and liabilities before effects from business acquisitions:			
Losses and loss adjustment expenses	(22,798)	102,789	798,784
Deferred charges re reinsurance assumed	16,171	46,931	(178,328)
Unearned premiums	83,937	75,274	26,109
Receivables	134,077	239,428	(177,043)
Accounts payable, accruals and other liabilities	34,996	150,615	(6,067)
Income taxes	107,931	29,004	(41,039)
Other	23,681	(10,521)	(8,868)
Net cash flows from operating activities	726,169	997,185	709,173
Cash flows from investing activities:			
Purchases of fixed maturity investments	(272,249)	(258,617)	(377,332)
Purchases of marketable equity securities	(858,879)	(913,037)	(809,633)
Proceeds from sales of fixed maturity investments	—	284,301	292,010
Proceeds from redemptions and maturities of fixed maturity investments	318,881	371,514	399,120
Proceeds from sales of marketable equity securities	1,188,510	100,270	522,701
Acquisition of businesses	—	(119,948)	(161,043)
Loans and investments originated in finance businesses	(866,843)	(160,261)	(163,803)
Principal collection on loans and investments originated in finance businesses	269,345	127,913	124,760
Other	19,578	(5,294)	(11,266)
Net cash flows from investing activities	(201,657)	(573,159)	(184,486)
Cash flows from financing activities:			
Proceeds from borrowings of finance businesses	591,853	38,862	811
Proceeds from other borrowings	1,264,972	961,565	455,972
Repayments of borrowings of finance businesses	(316,318)	(84,792)	(2,625)
Repayments of other borrowings	(1,399,901)	(906,964)	(462,288)
Other	(2,860)	(2,334)	(1,581)
Net cash flows from financing activities	137,746	6,337	(9,711)
Increase in cash and cash equivalents	662,258	430,363	514,976
Cash and cash equivalents at beginning of year	1,192,363	762,000	247,024
Cash and cash equivalents at end of year *	$1,854,621	$1,192,363	$ 762,000
** Cash and cash equivalents at end of year are comprised of the following:*			
Commercial and consumer finance businesses	*$ 16,518*	*$ 64,367*	*$ 32,658*
Other	*1,838,103*	*1,127,996*	*729,342*
	$1,854,621	*$1,192,363*	*$ 762,000*

See accompanying Notes to Consolidated Financial Statements

(1) Significant accounting policies and practices

(a) Basis of consolidation

The accompanying Consolidated Financial Statements include the accounts of Berkshire Hathaway Inc. (the "Company" or "Berkshire") consolidated with accounts of all its subsidiaries. Intercompany accounts and transactions have been eliminated.

(b) Accounting changes and reclassifications

In the accompanying Consolidated Balance Sheet as of December 31, 1992, reclassifications have been made when required to conform to current year presentation. In particular, individual assets and individual liabilities of commercial and consumer finance businesses have been reclassified for presentation in aggregate totals. Other reclassifications relate to provisions of Statement of Financial Accounting Standards No. 113 "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts" which was adopted by the Company effective January 1, 1993.

Effective January 1, 1993, the Company adopted the provisions of Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" ("SFAS 109"). The adoption of SFAS 109 changes the Company's method of accounting for income taxes from the "deferred method" to the "asset and liability method". Previously the Company deferred the past tax effects of timing differences between financial reporting and taxable income. Under the asset and liability method of SFAS 109, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The provisions of SFAS 109 require that the effect on deferred taxes of a change in tax rates be recognized in income in the period that includes the enactment date. See note 6.

In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). As permitted under the statement, the Company has elected to adopt the statement's provisions as of December 31, 1993. Among its provisions, the statement requires a change in the accounting for marketable equity securities held by non-insurance entities. Prior to the adoption of SFAS 115, such securities were carried at the lower of aggregate cost or market. Under the provisions of SFAS 115, these securities are now carried at market and accounted for in the same manner as marketable equity securities held by the Company's insurance subsidiaries. See notes 1(d), 4 and 8.

(c) Cash equivalents

Cash equivalents consist of funds invested in money market accounts and in investments with a maturity of three months or less when purchased.

(d) Investments

Management determines the appropriate classifications of investments in obligations with fixed maturities and marketable equity securities at the time of purchase and reevaluates such designations as of each balance sheet date. At December 31, 1993, all investments in obligations with fixed maturities are classified as held-to-maturity. Obligations with fixed maturities are deemed to be held-to-maturity securities when the Company has the ability and positive intent to hold them to maturity. Held-to-maturity securities are carried at amortized cost. Marketable equity securities are classified as available-for-sale. Available-for-sale securities are stated at fair value, with unrealized gains and losses, net of tax, reported in a separate component of shareholders' equity. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the Consolidated Statements of Earnings.

(e) Goodwill and negative goodwill of acquired businesses

The difference between purchase cost and the fair value of the net assets of acquired businesses is amortized on a straight line basis over forty years. The net unamortized balance is carried in other assets.

(f) Insurance premium acquisition costs

For financial reporting purposes, certain costs of acquiring insurance premiums are deferred, subject to ultimate recoverability, and charged to income as the premiums are earned. Generally, the ultimate recoverability of premium acquisition costs is determined without regard to investment income.

(1) Significant accounting policies and practices *(Continued)*

(g) Deferred charges re reinsurance assumed

The excess of estimated liabilities for claims and claim costs ultimately payable by the Insurance Group over consideration received with respect to retroactive property/casualty reinsurance contracts that provide for indemnification of insurance risk, other than structured settlements, is established as a deferred charge at inception of such contracts. The deferred charges are subsequently amortized using the interest method over the expected settlement periods of the claim liabilities. At December 31, 1993 and 1992, deferred charges re reinsurance assumed in the amounts of $466.0 million and $482.2 million respectively are included in other assets.

(h) Losses and loss adjustment expenses

Liability for losses and loss adjustment expenses represents the aggregate of such obligations of members of the Insurance Group with respect to: (i) prospective property/casualty insurance and reinsurance contracts, (ii) retroactive property/casualty reinsurance contracts that provide for indemnification of insurance risk, other than structured settlements, and (iii) reinsurance contracts providing for periodic payments with respect to settled claims ("structured settlements"). Except for structured settlement liabilities which are stated at discounted present values, the liability for losses and loss adjustment expenses is at the aggregate of estimated ultimate payment amounts.

Ultimate payment amounts with respect to prospective contracts are determined from (i) individual case estimates, (ii) estimates of incurred but not reported losses, based on past experience, and (iii) reports of losses from ceding insurers.

Ultimate payment amounts with respect to retroactive reinsurance contracts that provide for indemnification of insurance risk, other than structured settlements, are established for financial reporting purposes at maximum limits of indemnification under the contracts. This liability at December 31, 1993 was $1.181 billion and at December 31, 1992 was $1.232 billion. (See also 1(g) above for amounts related to deferred charges re reinsurance assumed.) For statutory reporting purposes, liabilities under these contracts are established, not at worst-case maximum loss limits, but at best estimates of claims and claim costs ultimately payable thereunder. These "best estimates" yielded respectively as of December 31, 1993 and December 31, 1992 liabilities of $919.8 million and $939.6 million. Underwriting losses reported with respect to these contracts in the accompanying financial statements were $41 million for 1993, $44 million for 1992 and $26 million for 1991, whereas for statutory reporting purposes the corresponding figures were a $10 million gain in 1993, and losses of $89 million and $184 million in 1992 and 1991, respectively.

Liabilities under structured settlement contracts are established when the contracts are entered into, at the then present value of the actuarially determined ultimate payment amount discounted at the prevailing market interest rate. Thereafter, annual accretions to the liabilities are charged to losses incurred. The aggregate of these liabilities for financial reporting purposes at December 31, 1993 was $259.8 million. For statutory reporting purposes, where the liabilities are determined using discount rates mandated by Insurance Regulatory authorities (5% for contracts incepting after 1986 and 7% with respect to contracts dated prior to 1987), the aggregate of structured settlement liabilities was $343.4 million.

(j) Insurance premiums

Insurance premiums for prospective insurance and non-property catastrophe reinsurance policies are recognized as revenues ratably over their terms with unearned premiums computed on a monthly or daily pro rata basis. Premiums for catastrophe excess of loss reinsurance contracts are deferred until the earlier of a loss occurrence or policy expiration. Consideration received for indemnification of risk under retroactive reinsurance contracts and structured settlements is accounted for as premiums earned at the inception of the contracts. Premiums earned are stated net of amounts ceded to reinsurers. See note 15.

(k) Reinsurance

Provisions for losses and loss adjustment expenses are reported in the accompanying Consolidated Statements of Earnings after deducting estimates of recoveries under reinsurance contracts. Such recoveries totalled $34 million, $90 million and $26 million for 1993, 1992 and 1991, respectively. Reinsurance contracts do not relieve the Insurance Group Members of their obligations to indemnify policyholders with respect to the underlying insurance and reinsurance contracts. Estimates of losses and loss expenses recoverable under reinsurance contracts are included in receivables.

(2) Dexter Shoe Companies merger

On November 7, 1993, the Company consummated a merger with the privately held Dexter Shoe Companies ("Dexter") by reissuing 25,203 shares of its common stock held in treasury in exchange for 100% of the outstanding common stock of Dexter. Dexter manufactures and distributes men's and women's dress, casual and athletic shoes. The merger was accounted for by the purchase method of accounting and, accordingly, Dexter's operating results are included in the Company's consolidated results of operations from the effective date of the merger. Had the results of Dexter been included commencing with operations in 1992, the reported results would not have been materially affected.

(3) Investments in obligations with fixed maturities

The amortized cost and estimated market values as of December 31, 1993 and 1992, of investments in obligations with fixed maturities are as follows (in thousands):

December 31, 1993	*Amortized Cost*	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Estimated Market Value*
Bonds:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 9,286	$ 131	$ (4)	$ 9,413
Obligations of states, municipalities and political subdivisions	653,884	50,552	(810)	703,626
Redeemable preferred stocks	1,381,882	190,188	(90,060)	1,482,010
Mortgage-backed securities*	63,550	1,635	(7)	65,178
	$2,108,602	$ 242,506	$ (90,881)	$2,260,227

December 31, 1992	*Amortized Cost*	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Estimated Market Value*
Bonds:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 39,084	$ 887	$ (30)	$ 39,941
Obligations of states, municipalities and political subdivisions	453,277	56,432	(350)	509,359
Corporate bonds	133,566	30,317	—	163,883
Redeemable preferred stocks	1,368,648	65,357	(89,701)	1,344,304
Mortgage-backed securities*	39,106	1,624	(34)	40,696
	$2,033,681	$ 154,617	$ (90,115)	$2,098,183

* *Excludes mortgage-backed securities held by commercial and consumer finance businesses. See note 5.*

Shown below are the amortized cost and estimated market values of the above obligations at December 31, 1993 by contractual maturity dates. Actual maturities will differ from contractual maturities because issuers of certain of the obligations retain early call or prepayment rights. Amounts are in thousands.

	Amortized Cost	*Estimated Market Value*
Due in one year or less	$ 33,196	$ 33,789
Due after one year through five years	1,126,710	1,305,057
Due after five years through ten years	878,094	848,527
Due after ten years	7,052	7,676
	2,045,052	2,195,049
Mortgage-backed securities	63,550	65,178
	$2,108,602	$2,260,227

Gross gains and gross losses realized on sales and redemptions of obligations with fixed maturities were as follows (in thousands):

	1993	*1992*	*1991*
Gross realized gains	$40,109	$80,076	$139,700
Gross realized losses	(174)	(563)	—

(4) Investments in marketable equity securities

Aggregate data with respect to the consolidated investment in marketable equity securities are shown below (in thousands):

December 31, 1993	*Cost*	*Unrealized Gain*	*Market*	*Carrying [a] Value*
Common stock of:				
Capital Cities/ABC, Inc. [b]	$ 345,000	$ 894,000	$ 1,239,000	$ 1,239,000
The Coca-Cola Company	1,023,920	3,144,055	4,167,975	4,167,975
GEICO Corporation [c]	45,713	1,713,881	1,759,594	1,759,594
The Gillette Company	600,000	831,000	1,431,000	1,431,000
All other marketable equity securities	2,303,125	1,639,503[d]	3,942,628	3,942,628
	$4,317,758	$8,222,439	$12,540,197	$12,540,197

December 31, 1992	*Cost*	*Unrealized Gain*	*Market*	*Carrying Value*
Common stock of:				
Capital Cities/ABC, Inc. [b]	$ 517,500	$1,005,750	$ 1,523,250	$ 1,506,487
The Coca-Cola Company	1,023,920	2,887,205	3,911,125	3,903,918
GEICO Corporation [c]	45,713	2,180,537	2,226,250	2,226,250
The Gillette Company	600,000	765,000	1,365,000	1,365,000
All other marketable equity securities	1,893,162	1,040,410[e]	2,933,572	2,650,999
	$4,080,295	$7,878,902	$11,959,197	$11,652,654

(a) As discussed in Note 1(b), the Company adopted SFAS 115 as of December 31, 1993. Therefore, all marketable equity securities are carried at market value as of December 31, 1993. The cumulative effect of adopting this statement as of December 31, 1993, was to increase the ending balance in shareholders' equity by $171,775 to reflect the unrealized appreciation of marketable equity securities held by the Company and by its non-insurance subsidiaries, net of related income taxes and minority interest. Prior year financial statements have not been restated.

(b) Common shares of Capital Cities/ABC, Inc. ("Capital Cities") owned by Berkshire subsidiaries possessed approximately 13% of the voting rights of all Capital Cities shares outstanding at December 31, 1993. The shares are held subject to an Agreement, the terms of which grant to Capital Cities a right of first refusal to purchase the shares and otherwise govern until January 3, 1997, the manner by which the shares may be sold or transferred. Also, Berkshire and its subsidiaries have delivered to Capital Cities irrevocable proxies with respect to these shares in favor of Thomas S. Murphy or Daniel B. Burke, so long as either shall be the chief executive officer of Capital Cities, to vote the shares at any and all meetings of shareholders of Capital Cities. The proxies expire on January 2, 1997, or at the earlier date when neither of such persons is chief executive officer of Capital Cities.

(c) Subsidiaries of Berkshire owned shares of common stock of GEICO Corporation that possessed approximately 48% of the voting rights of all GEICO shares outstanding at December 31, 1993. Berkshire maintains an independent proxy arrangement for voting of the shares as required by Order of GEICO's domiciliary insurance supervisory authority. The Order, dating from Berkshire subsidiaries' major purchase of the shares in 1976, prohibits Berkshire from seeking or causing to change the independent proxy. Also, under the Order, no officer or director of Berkshire or of any affiliate or subsidiary of Berkshire is permitted to serve as a director of GEICO. Because the Order divests Berkshire of its voting rights with respect to the shares, Berkshire does not use the equity method of accounting for its investment in GEICO.

(d) Represents gross unrealized gains $1,732,295, less gross unrealized losses $92,792.

(e) Represents gross unrealized gains $1,101,039, less gross unrealized losses $60,629.

(4) Investments in marketable equity securities *(Continued)*

Gross realized gains and losses on sales of marketable equity securities were as follows (dollars in thousands):

	1993	1992	1991
Gross realized gains	$518,347*	$ 10,595	$ 62,050
Gross realized losses	(11,860)	(171)	(9,272)

* *During the fourth quarter of 1993, a subsidiary of the Company sold 1,000,000 common shares of its investment in Capital Cities in connection with that Company's offer to buy from its shareholders up to 2,000,000 of its common shares. Prior to the sale and since 1986, Berkshire subsidiaries owned 3,000,000 shares of Capital Cities or approximately 18% of that Company's outstanding stock. Berkshire's gross realized gain from this transaction was $457.5 million.*

(5) Assets and liabilities of commercial and consumer finance businesses

Assets and liabilities of Berkshire's commercial and consumer finance businesses are summarized below (in thousands):

	Dec. 31, 1993	*Dec. 31, 1992*
Assets		
Cash and cash equivalents	$ 16,518	$ 64,367
Installment loans receivable	163,827	167,609
Real estate loans [(a)]	—	101,887
Mortgages and mortgage-backed securities [(b)]	656,311	68,933
Other	4,088	39,875
	$840,744	$442,671
Liabilities		
8.125% Notes, payable in 1996	$120,000	$120,000
Borrowings under investment agreements [(c)]	551,909	8,862
Savings accounts [(a)]	—	250,612
Other	51,873	44,071
	$723,782	$423,545

(a) During 1993, a federal savings bank assumed Mutual Savings and Loan Association's savings account liabilities, offset substantially by real estate loans, cash and certain other assets of Mutual.

(b) At December 31, 1993, mortgage-backed securities of $534,352 were included in this caption. Such securities consist of obligations of U. S. government corporations and agencies and corporate obligations collateralized by mortgages and other financial instruments. Each of these securities has received the highest rating from at least two rating agencies. At December 31, 1993, these securities had an average reported maturity, taking into account estimates for early repayments, of less than two years. The purchases of these securities were financed from proceeds of short-term borrowings under investment agreements with corresponding maturities. Estimated market values and gross unrealized gains and losses as of December 31, 1993 and 1992, are as follows (in thousands):

	Amortized Cost	*Gross Unrealized Gain*	*Gross Unrealized Loss*	*Market*
1993	*$656,311*	*$1,375*	*$(1,660)*	*$656,026*
1992	*68,933*	*1,197*	*(46)*	*70,084*

(c) Borrowings under investment agreements are made pursuant to contracts with terms generally ranging from six months to twenty years calling for interest payable, normally semiannually, at fixed rates ranging from 2.5% to 6.0% per annum. Payments of amounts outstanding at December 31, 1993, are expected to be required no earlier than as follows (in thousands):

1994	*$422,003*
1995	*62,994*
1996	*26,210*
1997	*345*
1998	*484*
After 1998	*39,873*

(6) Income taxes

The liability for income taxes as reflected in the accompanying Consolidated Balance Sheets represent estimates of liabilities as follows (in thousands):

	Dec. 31, 1993	*Dec. 31, 1992*
Payable currently	$ 289,686	$ 92,534
Deferred	2,740,503	2,424,652
	$3,030,189	$2,517,186

As discussed in Note 1(b), the Company adopted SFAS 109 as of January 1, 1993. The cumulative effect of adopting SFAS 109 on the Company's financial statements was to decrease 1993 net income by about $71 million. This amount is reflected in the 1993 Consolidated Statement of Earnings as the cumulative effect of change in accounting principle. It primarily represents the impact of adjusting deferred taxes related to unrealized appreciation of marketable equity securities which arose prior to 1987 to reflect the then current capital gain tax rate of 34% as opposed to the 28% rate which was in effect when the deferred taxes originated. The effect of the accounting change on 1993 earnings before income taxes and cumulative effect adjustment was not material. Prior year financial statements have not been restated.

During 1993, the federal corporate income and capital gain tax rate was increased from 34% to 35% retroactive to January 1, 1993. Accordingly, as required under SFAS 109, the company recorded a charge to 1993 earnings of approximately $75 million. Most of this charge relates to the impact of adjusting deferred taxes applicable to unrealized appreciation of marketable equity securities.

The Consolidated Statements of Earnings reflect charges for income taxes as shown below (in thousands):

	*1993**	*1992*	*1991*
Federal	$ 320,419	$110,276	$120,121
State	20,857	24,430	20,281
Foreign	4,026	3,383	1,656
	$ 345,302	$138,089	$142,058
Current	$ 400,762	$183,248	$152,563
Deferred	(55,460)	(45,159)	(10,505)
	$ 345,302	$138,089	$142,058

* *Excludes the cumulative effect of change in accounting for income taxes ($70,984) and the effect of the change in federal income tax rate on deferred taxes applicable to unrealized appreciation of marketable equity securities ($75,348).*

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 1993, are shown below (in thousands):

	1993
Deferred tax liabilities:	
Relating to unrealized appreciation of marketable equity securities	$2,848,681
Other	73,638
	2,922,319
Deferred tax assets	(181,816)
Net deferred tax liability	$2,740,503

For the years ended December 31, 1992 and 1991, deferred income tax benefit results from the timing differences in the recognition of income and expense for income tax and financial reporting purposes. The sources and effects of those timing differences are presented below (in thousands):

Applicable to:	*1992*	*1991*
Deferred insurance premium acquisition costs	$ 7,371	$ 3,392
Losses and loss adjustment expenses, net	(61,522)	(4,940)
Unearned premiums	(1,309)	(5,414)
Other, net	10,301	(3,543)
	$(45,159)	$(10,505)

(6) Income taxes *(Continued)*

Charges for income taxes are reconciled to hypothetical amounts computed at the federal statutory rate in the table shown below (in thousands):

	1993	*1992*	*1991*
Net earnings before income taxes	$1,189,718	$550,617	$592,986
Hypothetical amounts applicable to above computed at the federal statutory rate	$ 416,401	$187,210	$201,615
Decreases, resulting from:			
Tax-exempt interest income	(15,020)	(14,727)	(18,637)
Dividends received deduction	(68,333)	(62,085)	(54,923)
State income taxes, less federal income tax benefit	13,557	16,128	13,385
Net other differences	(1,303)	11,563	618
Total income taxes	$ 345,302*	$138,089	$142,058

* *Excludes the cumulative effect of change in accounting for income taxes and the effect of the change in federal income tax rates on deferred taxes applicable to unrealized appreciation of marketable equity securities.*

(7) Borrowings under investment agreements and other debt

Liabilities reflected for this balance sheet caption are as follows (in thousands):

	Dec. 31, 1993	*Dec. 31, 1992*
Borrowings under investment agreements	$ 915,079	$ 640,483
Zero Coupon Convertible Subordinated Notes	—	451,945
Other debt	57,310	62,269
	$ 972,389	$1,154,697

Borrowings under investment agreements are made pursuant to contracts with terms generally ranging from three months to forty years and calling for interest payable, normally semiannually, at fixed rates ranging from 3.0% to 9.0% per annum. The borrowings are senior unsecured debt obligations of the Company.

The Zero Coupon Convertible Subordinated Notes, originally issued in 1989, were redeemed in 1993. Each note was convertible at any time prior to redemption into 0.4515 shares of common stock. Prior to the redemption, certain note holders exercised their right to convert their notes into shares of Berkshire common stock. The Company issued 2,162 shares to holders electing to convert during 1992 and an additional 3,944 shares to holders electing conversion subsequent to December 31, 1992. On January 4, 1993, holders not electing to convert received $404.75 million in redemption proceeds for all remaining outstanding notes.

No materially restrictive covenants are included in any of the various debt agreements.

Payments of amounts outstanding at December 31, 1993, are expected to be required no earlier than as follows (in thousands):

1994	$106,264
1995	25,602
1996	26,528
1997	31,882
1998	29,216
After 1998	752,897

(8) Shareholders' equity accounts

Changes in Shareholders' Equity accounts during the most recent three years were as follows (dollars in thousands except per share amounts):

	Common Stock of $5 Par Value	*Capital in excess of par value*	*Net Unrealized Appreciation*	*Retained Earnings*	*Treasury Stock*
Balance December 31, 1990	$6,876	$157,377	$2,310,433	$2,855,061	$42,293
Increase during 1991 in unrealized appreciation included in carrying value of marketable equity securities			2,526,248		
Change during 1991 in deemed applicable income taxes			(858,969)		
Increase in minority shareholders' interest in unrealized appreciation			(14,723)		
Net earnings 1991				439,908	
Balance December 31, 1991	6,876	157,377	3,962,989	3,294,969	42,293
Increase during 1992 in unrealized appreciation included in carrying value of marketable equity securities			1,644,810		
Change during 1992 in deemed applicable income taxes			(559,235)		
Increase in minority shareholders' interest in unrealized appreciation			(1,345)		
Common stock (2,162 shares) issued upon conversion of Zero Coupon Convertible Subordinated Notes	11	24,887			
Net earnings 1992				407,285	
Balance December 31, 1992	6,887	182,264	5,047,219	3,702,254	42,293
Common stock (3,944 shares) issued upon conversion of Zero Coupon Convertible Subordinated Notes	20	45,457			
Common stock (25,203 shares) issued in connection with acquisition of Dexter Shoe Companies		428,353			(4,659)
Increase during 1993 in unrealized appreciation included in carrying value of marketable equity securities			316,002		
Change during 1993 in deemed applicable income taxes			(119,843)		
Increase in minority shareholders' interest in unrealized appreciation			(2,501)		
Net earnings 1993				688,121	
Cumulative effect of adoption on December 31, 1993, of SFAS 115 (See notes 1[b] and 4)			171,775		
Balance December 31, 1993	$6,907	$656,074	$5,412,652	$4,390,375	$37,634

(9) Interest and dividend income

Interest and dividend income for each of the past three years were comprised of the following (in thousands):

	1993	*1992*	*1991*
Interest earned by:			
Commercial and consumer finance businesses	$ 55,958	$ 62,042	$ 62,839
Insurance businesses	78,394	74,053	98,740
Other	22,597	56,898	59,713
Dividends earned by:			
Insurance businesses	306,725	287,464	244,702
Other	16,132	14,952	15,799
Interest and dividend income	$479,806	$495,409	$481,793

(10) Interest expense

Interest expense for 1992 and 1991 includes premiums paid and related costs to permit redemption prior to maturity date of certain term debt. Premiums paid and related costs for such redemptions were $22.5 million for 1992 and $5.7 million for 1991. Interest expense is comprised of interest on debt, including the aforementioned early redemption premiums and related costs, plus interest on savings accounts of Mutual Savings and Loan Association ("Mutual") as follows (in thousands):

	1993	*1992*	*1991*
Debt of commercial and consumer finance businesses	$ 18,412	$ 13,867	$ 14,286
Other debt and borrowings	56,545	98,643	89,250
Savings accounts of Mutual*	5,792	11,986	18,311
	$ 80,749	$124,496	$121,847

* *See note 5(a).*

(11) Dividend restrictions - Insurance subsidiaries

Payments of dividends by Insurance Group members are restricted by insurance statutes and regulations. Without prior regulatory approval in 1994, Berkshire can receive up to approximately $223 million as dividends from insurance subsidiaries.

Combined shareholders' equity of insurance subsidiaries determined pursuant to statutory accounting rules (Statutory Surplus as Regards Policyholders) was approximately $11.5 billion at December 31, 1993. This amount exceeded by approximately $2.1 billion the corresponding amount determined on the basis of generally accepted accounting principles; the difference principally represents deferred income tax assets and liabilities recognized for financial reporting purposes but not for statutory reporting purposes.

(12) Fair values of financial instruments

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments" ("SFAS 107"), requires certain fair value disclosures. Fair value disclosures are required for most investment securities as well as other contractual assets and liabilities. Certain financial instruments, including insurance contracts, were excluded from SFAS 107 disclosure requirements due to perceived difficulties in measuring fair value. Accordingly, an estimation of fair value was not made with respect to the Company's liabilities for unpaid losses and loss expenses.

In determining fair value, the Company used quoted market prices when available. For instruments where quoted market prices were not available, the Company used independent pricing services or appraisals by the Company's management. Those services and appraisals reflected the estimated present values utilizing current risk adjusted market rates of similar instruments.

Considerable judgement is necessarily required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value.

The carrying values of cash and cash equivalents, receivables and accounts payable, accruals and other liabilities are deemed to be reasonable estimates of their fair values. The estimated fair values of the Company's other financial instruments as of December 31, 1993 and 1992, are as follows (in thousands):

	Carrying Value		Estimated Fair Value	
	1993	1992	1993	1992
Investments in obligations with fixed maturities	$ 2,108,602	$ 2,033,681	$ 2,260,227	$ 2,098,133
Investments in marketable equity securities	12,540,197	11,652,654	12,540,197	11,959,197
Assets of commercial and consumer finance businesses	840,744	442,671	859,199	463,998
Borrowings under investment agreements and other debt	972,389	1,154,697	1,048,623	1,180,518
Liabilities of commercial and consumer finance businesses	723,782	423,545	730,426	423,637

(13) Supplemental cash flow information

A summary of supplemental cash flow information is presented in the following table (in thousands):

	1993	*1992*	*1991*
Non-cash investing and financing activities:			
Liabilities assumed in connection with acquisition of businesses	$ 26,093	$ 45,735	$ 11,390
Common shares issued upon conversions of Zero Coupon Convertible Subordinated Notes	45,477	24,898	—
Common shares issued in connection with acquisition of Dexter Shoe Companies	433,012	—	—
Cash paid during the year for:			
Income taxes	235,015	121,027	183,097
Interest	70,629	95,730	93,951

(14) Quarterly data

A summary of revenues and earnings by quarter for each of the last two years is presented in the following table. This information is unaudited. Dollars are in thousands, except per share amounts.

1993	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$725,827	$703,698	$744,127	$1,479,831
Earnings:				
Excluding realized investment gain and cumulative effect of accounting change	$ 84,105	$103,836	$ 12,389*	$ 202,073
Realized investment gain	16,630	8,127	10,405	321,540**
Cumulative effect of change in accounting for income taxes	(70,984)	—	—	—
Net earnings	$ 29,751	$111,963	$ 22,794	$ 523,613
Earnings per share:				
Before realized investment gain and cumulative effect of accounting change	$72.97	$90.09	$10.75	$173.10
Realized investment gain	14.43	7.05	9.03	275.45
Cumulative effect of change in accounting for income taxes	(61.59)	—	—	—
Net earnings	$25.81	$97.14	$19.78	$448.55

* *Includes a non-recurring charge of $75,348 ($65.38/share) representing the effect of the change in federal income tax rates on deferred taxes applicable to unrealized appreciation. See note 6.*

***Includes $297,375 ($254.75/share), net of taxes, related to sale of 1,000,000 shares of Capital Cities/ABC, Inc. common stock. See note 4.*

1992	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$640,778	$655,876	$827,734	$ 904,952
Earnings:				
Excluding realized investment gain	$ 66,682	$ 98,619	$ 26,247	$ 156,178
Realized investment gain	747	(575)	12,086	47,301
Net earnings	$ 67,429	$ 98,044	$ 38,333	$ 203,479
Earnings per share:				
Before realized investment gain	$58.17	$86.02	$22.90	$136.20
Realized investment gain	0.65	(0.50)	10.54	41.25
Net earnings	$58.82	$85.52	$33.44	$177.45

See's Candies' sales peak at Easter and more notably so in the fourth quarter when more than one-half of annual revenues for that business are normally recorded. A non-seasonal factor that may influence Berkshire's interim consolidated financial statements is that estimation error, inherent to the process of determining liabilities for unpaid losses of insurance subsidiaries, can be relatively more significant to results of interim periods than to results for a full year. Variations in amount and timing of realized securities gains or losses cause significant variations in periodic net earnings.

(15) Business Segment Data

Berkshire identified eight business segments for purposes of 1993 reporting pursuant to Statement of Financial Accounting Standards No. 14. These include the property and casualty insurance and reinsurance business (The Insurance Segment) plus seven separately conducted non-insurance businesses as follows:

Business identity and headquarters	Product	Activity
See's Candies South San Francisco, CA	Candy	Manufacture and distribution at retail and by catalog solicitation
World Book Chicago, IL	Encyclopedias and other reference materials	Publication and marketing, principally by the direct sales method
Kirby, Douglas and Cleveland Wood Divisions of The Scott Fetzer Company Cleveland, OH	Home cleaning systems	Manufacture and sale principally to distributors
Nebraska Furniture Mart Omaha, NE	Home furnishings	Retailing
Buffalo News Buffalo, NY	Newspaper	Publication of a daily and Sunday newspaper
H. H. Brown Shoe Co., Lowell Shoe, Inc. and Dexter Shoe Companies Greenwich, CT, Hudson, NH and Dexter, ME	Shoes	Manufacture, importing and distribution at wholesale and retail
Fechheimer Bros. Co. Cincinnati, OH	Uniforms	Manufacture and distribution at wholesale and retail

The business segments identified above were responsible in 1993 for 83% of Berkshire's consolidated revenues. Other businesses activities that contributed for 1993, in the aggregate, 16% of Berkshire's consolidated revenues, were as follows:

Business identity	Product/Service/Activity
Adalet	Conduit fittings, explosion proof junction boxes, couplings and terminators
BHR	Real estate management
Berkshire Hathaway Credit Corporation	Commercial financing
Blue Chip Stamps	Marketing motivational services
Borsheim's	Retailing fine jewelry
Campbell Hausfeld	Air compressors, air tools and painting systems
Carefree	Sun and shade control products and accessories for RVs
France	Appliance controls, ignition and sign transformers
Halex	Zinc die cast electrical fittings
K&W Products	Automotive compounds
Meriam	Pressure and flow measurement devices
Northland	Fractional horsepower motors
Powerwinch	Boat winches, windlasses
Precision	Steel service center
Quikut	Cutlery
ScottCare	Cardiopulmonary rehabilitation and monitoring equipment
Scott Fetzer Financial Group	Commercial and consumer finance companies
Scot Labs	Cleaning and maintenance chemicals
Stahl	Custom steel service bodies and tool boxes for trucks
Wayne	Furnace burners; sump, utility and sewage pumps
Wesco Financial	Real estate management
Western Enterprises	Compressed gas fittings and regulators
Western Plastics	Molded plastic components

(15) Business Segment Data *(Continued)*

A disaggregation of Berkshire's consolidated data for each of the three most recent years is presented in the tables which follow on this and the following page. Amounts are in thousands.

	Revenues			Operating profit before taxes		
	1993	*1992*	*1991*	*1993*	*1992*	*1991*
Identified Segments:						
Insurance	$1,597,328	$1,078,419	$1,230,608	$ 961,774	$ 298,715	$ 323,006
Non-insurance businesses	1,443,079	1,284,523	1,204,755	224,795	209,871	176,134
	3,040,407	2,362,942	2,435,363	1,186,569	508,586	499,140
Other than identified segments	613,076	666,398	670,633	59,694	140,674	183,096
Interest expense *				(56,545)	(98,643)	(89,250)
Aggregate consolidated total	$3,653,483	$3,029,340	$3,105,996	$1,189,718	$ 550,617	$ 592,986

* *Amounts of interest expense represent those for borrowings under investment agreements and other debt exclusive of that of commercial and consumer finance businesses. See note 10.*

Insurance Segment

	Revenues			Operating profit before taxes		
	1993	*1992*	*1991*	*1993*	*1992*	*1991*
Premiums earned: *						
Primary or direct	$ 249,585	$ 179,441	$ 175,882			
Reinsurance assumed	448,040	530,525	637,512			
Reinsurance ceded	(41,284)	(45,673)	(36,981)			
	656,341	664,293	776,413			
Underwriting				$ 29,960	$(108,961)	$(119,593)
Investment income	385,119	361,517	343,442	375,946	355,067	331,846
Realized investment gain	555,868	52,609	110,753	555,868	52,609	110,753
	$1,597,328	$1,078,419	$1,230,608	$ 961,774	$ 298,715	$ 323,006

* *Premiums written were as follows:*

	1993	*1992*	*1991*
Primary or direct	*$ 247,173*	*$ 153,177*	*$ 169,120*
Reinsurance assumed	*534,383*	*626,159*	*669,148*
Reinsurance ceded	*(38,854)*	*(39,769)*	*(35,746)*
	$ 742,702	*$ 739,567*	*$ 802,522*

Non-Insurance Business Segments

	Revenues			Operating profit before taxes		
	1993	*1992*	*1991*	*1993*	*1992*	*1991*
Candy	$ 201,243	$ 197,186	$ 195,978	$ 40,270	$ 41,382	$ 41,416
Encyclopedias, other reference material	198,807	246,107	311,509	19,375	28,228	22,232
Home cleaning systems	193,891	190,072	192,001	40,944	37,744	37,332
Home furnishings	209,134	186,096	171,002	21,094	16,665	13,939
Newspaper	145,470	139,764	130,259	50,390	47,291	36,527
Shoes	372,064	215,006	104,045	40,003	25,586	12,464
Uniforms	122,470	110,292	99,961	12,719	12,975	12,224
	$1,443,079	$1,284,523	$1,204,755	$ 224,795	$ 209,871	$ 176,134

(15) Business Segment Data *(Continued)*

Other Than Identified Segments	Revenues			Operating profit before taxes		
	1993	*1992*	*1991*	*1993*	*1992*	*1991*
Other businesses	$595,513	$567,719	$524,395	$ 54,808	$ 54,321	$ 49,355
Not identified with specific businesses:						
Interest and dividend income	26,608	61,011	63,686	26,608	61,011	63,686
Realized investment gain (loss)	(9,444)	37,328	81,725	(9,444)	37,328	81,725
All other except interest expense	399	340	827	(12,278)	(11,986)	(11,670)
	$613,076	$666,398	$670,633	$ 59,694	$140,674	$183,096

	Capital expenditures *			Deprec. & amort. of tangible assets		
	1993	*1992*	*1991*	*1993*	*1992*	*1991*
Insurance	$ 1,207	$ 1,071	$ 1,437	$ 812	$ 840	$ 992
Candy	6,531	4,167	4,687	4,116	4,061	3,882
Encyclopedias, other reference material	736	184	3,107	1,449	1,379	1,449
Home cleaning systems	1,470	769	1,104	5,259	4,942	5,092
Home furnishings	5,254	8,528	2,552	2,663	2,210	1,613
Newspaper	3,602	3,370	817	1,855	2,373	2,949
Shoes	4,407	2,171	1,050	5,201	3,027	1,580
Uniforms	1,041	2,660	1,482	1,836	1,833	1,411
Other	12,962	8,881	13,648	17,321	14,692	14,094
	$37,210	$31,801	$29,884	$40,512	$35,357	$33,062

** Expenditures which were part of business acquisitions are excluded.*

	Identifiable assets at year-end		
	1993	*1992*	*1991*
Insurance	$16,163,378	$14,788,237	$12,406,654
Candy	70,201	65,880	68,300
Encyclopedias, other reference material	74,676	83,778	94,927
Home cleaning systems	48,703	50,692	51,929
Home furnishings	101,147	88,331	76,396
Newspaper	45,402	43,751	44,061
Shoes	641,548	208,218	157,902
Uniforms	87,546	85,392	74,190
Other	2,287,868	1,717,719	1,487,543
	$19,520,469	$17,131,998	$14,461,902

Results of Operations

Net earnings for each of the past three years are disaggregated in the table that follows. Amounts are after deducting minority interests and taxes.

	(dollars in millions)		
	1993	1992	1991
Insurance Segment:			
Underwriting	$ 19.2	$(71.1)	$(77.2)
Investment income	321.3	305.8	285.1
Realized investment gain	362.7	36.1	73.8
Total - Insurance Segment	703.2	270.8	281.7
Non-Insurance business segments	133.3	123.4	104.2
Other businesses	32.8	30.7	27.6
Realized investment gain (loss) not included above	(6.1)	23.4	50.3
All other except interest expense	6.8	21.9	33.3
Interest expense *	(35.6)	(62.9)	(57.2)
Earnings before effect of change in income tax rate and cumulative effect of accounting change	834.4	407.3	439.9
Effect of change in income tax rate on deferred taxes applicable to unrealized appreciation **	(75.3)	—	—
Cumulative effect of change in accounting for income taxes **	(71.0)	—	—
Net earnings	$688.1	$407.3	$439.9

* *Interest expense incurred by commercial and consumer finance businesses is not reflected as "Interest expense" but instead is reflected in amounts shown for "Other businesses".*

** *For a discussion regarding these items refer to Notes 1(b) and 6 to the Consolidated Financial Statements.*

The business segment data (Note 15 to the Consolidated Financial Statements) on the preceding pages of this report should be read in conjunction with this discussion.

Insurance Underwriting

The after-tax figures shown above for Insurance underwriting derive from the following:

	(dollars in millions)		
	1993	1992	1991
Underwriting gain (loss):			
Primary or direct insurance	$ 12.7	$ 8.0	$ (2.5)
Reinsurance assumed	17.3	(117.0)	(117.1)
Underwriting gain (loss) — pre-tax	30.0	(109.0)	(119.6)
Applicable income taxes	(10.2)	37.7	42.2
Applicable minority interest	(0.6)	0.2	0.2
After-tax underwriting gain (loss)	$ 19.2	$(71.1)	$(77.2)

The Berkshire Hathaway Insurance Group engages in both insurance and reinsurance of property/casualty risks. In its insurance activities, as distinguished from its reinsurance activities, its members assume risks of loss from persons primarily and directly subject to the risks. In its reinsurance activities, the members assume defined portions of similar or dissimilar risks to which other insurers and reinsurers have subjected themselves in their own insuring activities.

A significant marketing strategy followed by all Insurance Group members is the maintenance of above average capital strength. Statutory surplus as regards policyholders of the Berkshire Hathaway Insurance Group increased to approximately $11.5 billion at year-end 1993. This extraordinary capital strength creates opportunities for Berkshire Group members to negotiate and enter into contracts of insurance specially designed to meet unique needs of sophisticated insurance and reinsurance buyers.

Insurance Underwriting (continued)

For purposes of this Discussion, premiums and losses and loss expenses amounts are stated net of reinsurance ceded.

Reinsurance Assumed

Underwriting results, stated on the basis of generally accepted accounting principles ("GAAP"), with respect to the reinsurance assumed business for the past three years are summarized in the following table.

	(dollars in millions)					
	1993		1992		1991	
	Amount	%	Amount	%	Amount	%
Premiums written	$ 534.3		$ 607.2		$ 667.0	
Premiums earned	$ 448.0	100.0	$ 511.5	100.0	$ 635.4	100.0
Losses and loss expenses	356.3	79.5	589.7	115.3	731.9	115.2
Underwriting expenses	74.4	16.6	38.8	7.6	20.6	3.2
Total losses and expenses	430.7	96.1	628.5	122.9	752.5	118.4
Underwriting gain (loss) — pre-tax	$ 17.3		$(117.0)		$(117.1)	

Disaggregated data follows for these activities.

	(dollars in millions)								
	Premiums Earned			Underwriting Gain (Loss)			Year-End Reserves*		
	1993	1992	1991	1993	1992	1991	1993	1992	1991
Retroactive reinsurance and structured settlements	$ 43.8	$145.5	$363.2	$ (64.3)	$ (66.0)	$ (49.0)	$1,441.0	$1,498.0	$1,573.9
Other reinsurance	404.2	366.0	272.2	81.6	(51.0)	(68.1)	1,026.7	917.2	708.3
	$448.0	$511.5	$635.4	$ 17.3	$(117.0)	$(117.1)	$2,467.7	$2,415.2	$2,282.2

* *Net unpaid losses and loss adjustment expenses*

Premiums Earned

Premiums earned from retroactive reinsurance — coverages of past loss events — amounted to $21 million in 1993, $144 million in 1992 and $362 million in 1991. These contracts were few in number but produced sizable premiums. Increasing competition in the retroactive reinsurance markets resulted in fewer opportunities to write such business during 1993 and 1992. In 1993, premiums earned from structured settlement contracts totalled about $22 million, reflecting increased marketing efforts which began early in the year.

Premiums earned from other reinsurance activities are principally derived from excess of loss contracts, including catastrophe policies, and quota share contracts. The increase in premiums earned in 1992 over 1991 was largely attributed to increased amounts earned under catastrophe excess of loss contracts. The increase in premiums earned in 1993 over 1992 was primarily attributed to amounts earned under quota share treaties.

Underwriting Gain/Loss

The underwriting loss from retroactive reinsurance coverages amounted to $41 million for 1993, $44 million for 1992 and $26 million for 1991, reflecting principally the amortization of deferred charges re reinsurance assumed. See Note 1(g) to the Consolidated Financial Statements for information with respect to these charges. Underwriting losses from structured settlement activities were between $22 and $23 million for each of the past three years. These losses reflect accounting procedures which employ time-value-of-money concepts — amortization of deferred charges re reinsurance assumed and accretion of discounted structured settlement liabilities. The amortization and accretion are reported as losses incurred, and thus, because there is no related premium income, as underwriting losses. Amortization and accretion charges of about $65 million are expected in 1994.

Insurance Underwriting (continued)

Reinsurance Assumed (continued)

In each of the past three years, the net underwriting results from other reinsurance activities were significantly influenced by the magnitude of losses incurred under catastrophe excess of loss contracts. In 1993, catastrophe losses incurred totalled about $14 million (deriving from a variety of loss events occurring in prior years). In 1992 and 1991, catastrophe losses incurred were about $125 million (Hurricane Andrew) and about $38 million (Typhoon Mireille), respectively. As a result, this business generated an underwriting gain of about $110 million during 1993 as compared to nearly breakeven results in the prior two years.

Little comfort should be gained from either (a) the lack of catastrophe losses in 1993 as compared with 1992 or 1991 or (b) the current expectation that the January 1994 Los Angeles earthquake will only produce a nominal loss. The underwriting gains produced by this business in any given year can be easily exceeded by losses in the next. Thus periodic underwriting results were and are expected to be subject to substantial volatility. Berkshire's management, however, is willing to accept such volatility, provided that the prospect of long term profitability is favorable.

The non-catastrophe reinsurance business produced an underwriting loss of about $28 million for 1993. In 1992 and 1991, the preponderance of net underwriting losses reported as "other reinsurance" derived from non-catastrophe contracts. Underwriting results from other reinsurance for 1991 are net of credits for favorable development totalling about $30 million with respect to liabilities under pre-1990 quota share reinsurance contracts. Underwriting results in 1993 and 1992 reflect relatively minor amounts of loss development.

In pricing most non-catastrophe reinsurance contracts, the concept of the time-value-of-money is an important consideration due to the anticipated extended claim payment period — or "tail". This is especially true with respect to pricing reinsurance of certain casualty or liability coverages, the premiums for which are based in significant part on time discounting of expected losses. Losses and loss expenses are established for these contracts on an undiscounted basis, thus resulting in underwriting losses for financial reporting purposes. This business is accepted, nonetheless, because of the large amounts of investable policyholder funds (or "float") that it produces.

The estimated liability for unpaid losses and loss expenses from reinsurance assumed businesses, as shown in the preceding table, totalled about $2.5 billion at the end of 1993, an increase of about $1.0 billion since the end of 1990. Subsequent loss development with respect to a liability of this magnitude is another factor which may cause substantial volatility in future periodic earnings.

Primary or Direct Insurance Underwriting

A summary follows of the combined underwriting results, stated on a GAAP basis, of the Berkshire Hathaway Insurance Group's primary or direct insurance operations.

	(dollars are in millions)					
	1993		1992		1991	
	Amount	%	Amount	%	Amount	%
Premiums written	$ 208.4		$ 132.4		$ 135.5	
Premiums earned	$ 208.3	100.0	$ 152.8	100.0	$ 141.0	100.0
Losses and loss expenses	99.8	47.9	98.0	64.1	95.2	67.5
Underwriting expenses	95.8	46.0	46.8	30.7	48.3	34.3
Total losses and expenses	195.6	93.9	144.8	94.8	143.5	101.8
Underwriting gain (loss) — pre-tax	$ 12.7		$ 8.0		$ (2.5)	

Favorable loss development, discussed on the following pages, of beginning-of-the-year loss reserves represented respectively, 20.0%, 23.8% and 16.9% of premiums earned in 1993, 1992 and 1991. Without such credits, total losses and expenses as a percentage of premiums earned were: 1993 — 113.9%, 1992 — 118.6%, and 1991 — 118.7%.

Management's Discussion *(continued)*

Insurance Underwriting (continued)

Primary or Direct Insurance Underwriting (continued)

Primary or direct insurance underwriting results for 1993 include Central States Indemnity Co. of Omaha ("CSI"). Berkshire acquired 82% of CSI at the end of 1992. CSI, which underwrites credit card credit insurance for individuals, produced premiums earned of $68.5 million and a net underwriting gain of $4.9 million for 1993.

CSI's business differs substantially from the insurance business underwritten by the other members of the Insurance Group. CSI's premiums derive from a high volume of small dollar premium transactions generated through credit card issuers. CSI's underwriting expenses are normally much higher than underwriting expenses of the other Insurance Group members. On the other hand, CSI's losses and loss expenses incurred, as percentages of premiums earned are substantially lower than for the other primary or direct underwriting units. Overall, periodic underwriting results from this business are anticipated to be less volatile than the other primary or direct insurance operations.

Premiums earned by Berkshire's other primary or direct insurance businesses totalled $140 million, $153 million and $141 million for 1993, 1992 and 1991, respectively. Those businesses produced net underwriting gains of about $8 million for 1993 and 1992 compared to a loss of $2.5 million in 1991.

The other primary or direct insurance activities include the "traditional" business, directed from National Indemnity Company's Omaha offices. This business represents principally casualty coverages for commercial accounts. The commercial casualty/professional liability/specialty risk operations located in Stamford, Connecticut, enter into "tailored" insurance contracts for insureds presenting risks unusual in nature and/or especially large in amount. The homestate companies underwrite various commercial coverages for standard risks located predominantly in their home states — Nebraska, Kansas and Colorado. In 1992, the homestate units began to expand their operations by underwriting similar risks located outside their home states. Additional expansion of the homestate business is planned in 1994. Cypress Insurance Company, a specialty carrier, underwrites workers' compensation risks in a highly competitive market environment in California.

Each of the units employ disciplined underwriting approaches. Members are encouraged to reject underpriced risks without regard to volume considerations. As a result of this strategy, during periods of abundant industry insuring capacity, as has prevailed since 1986, competitors write increasing amounts of primary or direct insurance by charging lower prices than those of the Group. Historically, these lower prices have led competitors to exit the markets as a result of incurring unacceptable losses. Management believes this situation will recur at an unpredictable future time, leading to increases of primary or direct insurance offerings to the Group. However, management does not foresee any significant changes in current market conditions which would soon reverse the current trend of lower premium volume.

Summarized below is loss and loss expense data from primary or direct insurance underwriting:

	(dollars in millions)		
	1993	1992	1991
Unpaid losses and loss expenses at beginning of year	$563.2	$566.9	$586.6
Incurred losses recorded:			
Current year occurrences	141.4	134.4	119.0
All prior years' occurrences	(41.6)	(36.4)	(23.8)
	99.8	98.0	95.2
Payments with respect to:			
Current year occurrences	32.6	42.1	23.3
All prior years' occurrences	101.2	86.1	91.6
	133.8	128.2	114.9
Unpaid losses and loss expenses at end of year	$529.2	$536.7*	$566.9

* *Excludes unpaid losses and loss expenses of Central States Indemnity Co. of Omaha — acquired by Berkshire at the end of 1992.*

Insurance Underwriting (continued)

Primary or Direct Insurance Underwriting (continued)

Credits against incurred losses were recorded in each of the last three years for "all prior year occurrences." They are corrections of estimation error that are credited or charged to earnings in the year made. Relating these credits for each year to the related estimated unpaid amounts at the beginning of the respective year, the "savings" were: 1993 — 7.4%, 1992 — 6.4%, and 1991 — 4.1%. The favorable development recorded in each of the most recent three years related principally to the traditional commercial automobile business of the National Indemnity Primary Group. While the trend of favorable development recognized in recent years is encouraging, the nature of estimating losses is inherently imprecise, particularly with respect to losses which are reported and settled over lengthy periods of time. In the future, additional information will be revealed, including reports of additional cases of an unknown number and magnitude for pre-1994 losses. A provision for late reported cases is included in the 1993 year-end estimate of unpaid losses and loss expenses which in the aggregate is subject to favorable or unfavorable development recognizable in future years.

Insurance Segment Investment Income

Following is a summary of Insurance Group net investment income for the past three years.

	(dollars in millions)		
	1993	1992	1991
Investment income before taxes	$375.9	$355.1	$331.8
Applicable income taxes	51.3	46.5	43.8
Applicable minority interest	3.3	2.8	2.9
Investment income after taxes and minority interest	$321.3	$305.8	$285.1

Invested assets increased in each of the past three years. In the three year period, Berkshire contributed over $200 million additional capital to the Group. Reinvested earnings of the Group for that period amounted to approximately $1 billion. That figure excludes charges related to changes in accounting for income taxes. See Note 6 to Consolidated Financial Statements for additional information about the nature of these charges. Contributing to a further increase in invested assets was about a $1.1 billion increase during the past three year period in the amount of "float" from policyholder funds. That term denotes the sum of unpaid losses, unpaid loss adjustment expenses and unearned premiums, less the aggregate of agents' balances receivable, amounts recoverable as reinsurance on paid and unpaid losses, deferred policy acquisition costs and deferred charges re reinsurance assumed. The net amount of float was approximately $1.63 billion at the end of 1990, $2.07 billion at the end of 1991, $2.51 billion at the end of 1992 and $2.76 billion at the end of 1993. A factor which offsets the increase in amounts of invested assets was the disposal of certain high yield bond investments during 1993 and 1992.

Non-Insurance Business Segments

A summary follows of results to Berkshire from these identified business segments for the past three years.

	(dollars in millions)					
	1993		1992		1991	
	Amount	%	Amount	%	Amount	%
Revenues	$1,443.1	100.0	$1,284.5	100.0	$1,204.8	100.0
Cost and expenses	1,218.3	84.4	1,074.6	83.7	1,028.7	85.4
Operating profit	224.8	15.6	209.9	16.3	176.1	14.6
Income taxes	87.8	6.1	83.2	6.5	69.0	5.7
Minority Interest	3.7	0.3	3.3	0.2	2.9	0.2
Contribution to net earnings	$ 133.3	9.2	$ 123.4	9.6	$ 104.2	8.7

A comparison of revenues and operating profits between 1993, 1992 and 1991 for each of the seven identifiable non-insurance business segments follows.

	(dollars in millions)						Operating Profit		
	Revenues			Operating Profits			as a % of Revenues		
Segment	1993	1992	1991	1993	1992	1991	1993	1992	1991
Candy	$ 201.2	$ 197.2	$ 196.0	$ 40.3	$ 41.4	$ 41.4	20.0	21.0	21.1
Encyclopedias, other reference material	198.8	246.1	311.5	19.4	28.2	22.2	9.8	11.5	7.1
Home cleaning systems	193.9	190.1	192.0	40.9	37.7	37.3	21.1	19.8	19.4
Home furnishings	209.1	186.1	171.0	21.1	16.7	13.9	10.1	9.0	8.2
Newspaper	145.5	139.7	130.3	50.4	47.3	36.6	34.6	33.8	28.0
Shoes	372.1	215.0	104.0	40.0	25.6	12.5	10.7	11.9	12.0
Uniforms	122.5	110.3	100.0	12.7	13.0	12.2	10.4	11.8	12.2
	$1,443.1	$1,284.5	$1,204.8	$224.8	$209.9	$176.1			

1993 compared to 1992

Revenues from the seven identifiable non-insurance business segments of $1,443.1 million increased $158.6 million (12.3%) from the prior year. The overall operating profit from these business segments of $224.8 million increased $14.9 million (7.1%). The "shoes" segment and the "encyclopedias, other reference material" segment experienced the most significant variations in comparative results between 1993 and 1992. The following discussion will focus primarily on those segments' comparative results.

Shoes

As reflected in the preceding table, the most significant revenue increase occurred within this segment. Much of the increase arose as a result of two significant acquisitions. Just prior to the end of 1992 this segment was comprised solely of H. H. Brown Shoe Company, Inc. ("H. H. Brown"), a manufacturer and distributor of work, safety and casual footwear. In December 1992, the acquisition for cash of Lowell Shoe, Inc. ("Lowell") was completed. Lowell manufactures and markets women's casual, service and nurses' footwear. Lowell accounted for almost $90 million of the revenue increase between years.

A second, larger acquisition was completed on November 7, 1993, when Berkshire consummated a merger with the Dexter Shoe Companies ("Dexter"). Dexter is a manufacturer of men's and women's dress, causal and athletic footwear. In addition, Dexter operates seventy-seven retail outlet stores located primarily in the northeastern United States. Dexter's shoes are produced at five production facilities in Maine as well as two plants located in Puerto Rico. The merger was accounted for as a purchase and Dexter's results of operations have been included from the date of the merger, accounting for approximately $30 million of the increase in comparative revenues.

H. H. Brown accounted for the remainder of the increase in the shoe segment revenues. Revenues increased approximately 17% as compared to the prior year. Much of the increase can be attributed to the popularity of work shoes, as this business continues to benefit from reduced demand for athletic shoes. In 1994, it is expected that the combined revenues from the three businesses now comprising this segment will exceed $550 million.

Non-Insurance Business Segments *(continued)*

1993 compared to 1992 (continued)

Shoes (continued)

Operating profit as a percentage of sales declined between years. This decline resulted from non-recurring charges recorded by Lowell, primarily in connection with the implementation of more stringent inventory control procedures. Excluding these charges of approximately $3.8 million, operating profit as a percentage of revenues was relatively unchanged between years.

Encyclopedias, Other Reference Material

During 1993, revenues from the "encyclopedias, other reference material" segment declined $47.3 million (19.2%). The decline is primarily a result of the continuation of a reduction, which began in 1989, in *World Book* and *Childcraft* unit sales. Since 1989, unit sales of these products have declined almost 50%. Management cannot predict whether or not unit sales will rebound. Management is dealing with the causes that they believe have contributed to the decline. The entire printed encyclopedia industry has experienced substantial reductions in unit sales during this period. However, it has been widely reported that CD-ROM technology has contributed to the reduced demand for printed encyclopedias. Over the last few years the number of home computers equipped with CD-ROM hardware has increased dramatically and this increase is expected to continue. At the same time, several CD-ROM versions of encyclopedias have been introduced. A CD-ROM version of World Book was developed in 1989 and has since been marketed on a limited basis. It is expected that an enhanced version of this product will be marketed, beginning in April 1994, both in conjunction with printed World Book products as well as on a stand alone basis. What impact this new product will have on future business cannot be stated with any degree of certainty.

This segment's 1993 operating profits are net of a non-recurring charge of approximately $3.3 million related to a decision to vacate space currently under lease by the encyclopedia publishing group. This group will relocate to available space in a building currently utilized by the encyclopedia sales division. Excluding this charge, operating profits in 1993 declined 19.5%. Such decline is largely attributable to the aforementioned decline in unit sales of encyclopedias.

Other Non-Insurance Business Segments

Revenues from the home furnishings segment increased in 1993 by $23.0 million (12.4%) over the prior year. Increases were achieved in all major product categories. Revenues during the last eight months of 1993 also benefitted from the opening of a factory outlet store adjacent to the Nebraska Furniture Mart ("NFM") for manufacturers' closeouts and discontinued product lines. A 100,000 square foot appliance and electronics superstore, also to be located adjacent to the NFM, is planned for opening during the third quarter of 1994. The new store will add such products as music compact discs and an expanded computer software line to NFM's already large selection of electronics and appliances. It is expected that NFM's revenues will increase rather significantly beginning in the fourth quarter of 1994 as a result of this addition. However, it is also anticipated that this lower margin business will cause future overall operating profits as a percentage of sales to decline somewhat as NFM plans to dramatically increase its market share through aggressive pricing.

The newspaper segment's 1993 revenues of $145.5 million increased $5.8 million (4.1%) over the prior year. Both advertising and circulation revenues increased modestly between years. Operating profits increased $3.1 million (6.6%) when compared to the prior year. The favorable comparative results arose largely because in 1992 a special charge of $2.9 million was recorded relating to the buy out of employees with lifetime job guarantees. During 1993, the *Buffalo News* began to derive benefits from the buy outs which had taken place during each of the past two years. However, somewhat offsetting this favorable development were increased costs per employee for health care and other employee benefits. The *Buffalo News* results also continued to be favorably impacted by newsprint costs which for the past several years have declined or remained relatively unchanged.

Non-Insurance Business Segments *(continued)*

1993 compared to 1992 *(continued)*

Other Non-Insurance Business Segments *(continued)*

Revenues from the home cleaning systems segment were $3.8 million (2.0%) above the prior year. Domestic unit sales of Kirby home cleaning systems increased 5% as compared to the prior year while foreign unit sales declined about 14%. Offsetting the effect on revenues of the decline in foreign unit sales was the fact that the Generation III model system, with its added features and higher price, accounted for all foreign sales in 1993 whereas during 1992 the model was not available in all foreign markets for the full year.

The candy segment experienced a slight decrease in volume during 1993 as pounds of candy sold decreased 1% from the prior year. A 3% price increase at the beginning of the year more than offset the effect of reduced volume on revenues. During 1993, See's intensified its marketing efforts in its mail order and quantity order programs. The expanded distribution of its competitive mail order catalog and other marketing efforts resulted in an improvement in mail orders and quantity order sales during 1993.

The uniform segment's revenue increased $12.2 million (11.1%) in 1993. The increased revenues are largely attributable to acquisitions during the second half of 1992 of ten additional retail locations and a manufacturer of specialty uniforms. Thus, results for 1993 reflect a full year for these businesses as compared to a partial year in 1992.

1992 compared to 1991

Revenues from the non-insurance business segments increased $79.7 million (6.6%) in 1992 as compared to 1991. The acquisition of H. H. Brown in July 1991, more than accounts for the increase as full year 1992 results are being compared to six month results for 1991. H. H. Brown's 1992 revenues of $215.0 million exceeded 1991 half year revenues by $111.0 million. Offsetting this increase was a reduction in World Book revenues of $65.4 million (21.0%). World Book's reduced revenues resulted in part from a significant decline in unit sales. (See preceding section regarding comparative 1993 vs 1992 results for a discussion regarding the decline in World Book unit sales.) Reduced revenues of the "encyclopedias, other reference material" segment also arose from the discontinuance during December 1991 of the syndication business. This business consisted of direct mail marketing of primarily non-educational products. Revenues from Berkshire's other five reportable segments were $823.4 during 1992 compared to $789.3 million during 1991. None of the five segments had revenue increases in excess of 10.5% and only the home cleaning systems segment with a decline of 1% had lower revenues in 1992 as compared to 1991. Operating profits of $209.9 million during 1992 were $33.8 million (19.2%) greater than in 1991. The inclusion of H. H. Brown results for a full year in 1992 vs only six months of 1991 accounts for almost 40% of the change between years. Favorable comparative operating profit results were also achieved by all of the other reportable segments except for See's where comparative operating profits were roughly unchanged between years.

Business Other Than Identified Segments

	(dollars in millions)		
	1993	1992	1991
Revenues	$595.5	$567.7	$524.4
Operating profit	$ 54.8	$ 54.3	$ 49.3
Income taxes	20.8	21.8	19.3
Minority interest	1.2	1.8	2.4
Contribution to net earnings	$ 32.8	$ 30.7	$ 27.6

The above represent aggregate data for businesses that numbered 23 in 1993. Berkshire management believes that narrative discussion of the results of the constituent businesses would not yield significant benefit to investors or others, particularly in view of the relative consistency of the year-to-year aggregate data.

Interest Expense

In January 1993, the redemption of Berkshire's Zero Coupon Convertible Subordinated Notes was completed. Including redemptions of other term debt which occurred during 1992, outstanding term debt has been reduced by about $650 million from the level which existed at December 31, 1991. Somewhat offsetting these reductions are increases in outstanding borrowings under investment agreements which have increased approximately $520 million during the same period. The resulting lower interest costs from reduced levels of borrowings along with the fact that interest expense for 1992 includes premiums paid to redeem term debt of $16.2 million and a charge of $6.3 million representing the writeoff of deferred financing costs related to the aforementioned Zero Coupon Convertible Subordinated Notes account for the decline in 1993 interest expense as compared to the prior year.

Realized Investment Gain

During the fourth quarter of 1993, an insurance subsidiary of the Company sold one million common shares of its investment in Capital Cities/ABC, Inc. ("Capital Cities") in connection with that Company's offer to buy from its shareholders up to two million of its common shares. Prior to the sale and since 1986, Berkshire subsidiaries owned three million shares of Capital Cities or approximately 18% of that Company's outstanding stock. Berkshire's pre-tax gain from this transaction was $457.5 million.

Realized investment gain has been a recurring element in Berkshire's net earnings for many years. The amount — recorded when appreciated securities are sold — tends to fluctuate significantly from period to period, with a meaningful effect upon Berkshire's consolidated net earnings. But, the amount of realized investment gain for any given period has no predictive value, and variations in amount from period to period have no practical analytical value, particularly in view of the unrealized price appreciation now existing in Berkshire's consolidated investment portfolio.

Liquidity and Capital Resources

Berkshire's Consolidated Balance Sheet as of December 31, 1993, reflects continuing capital strength. In the past three years, Berkshire shareholders' equity has increased from approximately $5.3 billion at December 31, 1990 to approximately $10.4 billion at December 31, 1993. In that three-year period, realized and unrealized securities gains increased equity capital by approximately $3.6 billion, and reinvested earnings, other than realized securities gains, were about $1.0 billion.

BERKSHIRE HATHAWAY INC.

SHAREHOLDER-DESIGNATED CONTRIBUTIONS

The Company has conducted this program of corporate giving during each of the past eleven years. On October 14, 1981, the Chairman sent to the shareholders a letter* explaining the program. Portions of that letter follow:

"On September 30, 1981 Berkshire received a tax ruling from the U.S. Treasury Department that, in most years, should produce a significant benefit for charities of your choice.

"Each Berkshire shareholder — on a basis proportional to the number of shares of Berkshire that he owns — will be able to designate recipients of charitable contributions by our company. You'll name the charity; Berkshire will write the check. The ruling states that there will be no personal tax consequences to our shareholders from making such designations.

"Thus, our approximately 1500 owners now can exercise a perquisite that, although routinely exercised by the owners in closely-held businesses, is almost exclusively exercised by the managers in more widely-held businesses.

"In a widely-held corporation the executives ordinarily arrange all charitable donations, with no input at all from shareholders, in two main categories:

(1) Donations considered to benefit the corporation directly in an amount roughly commensurate with the cost of the donation; and
(2) Donations considered to benefit the corporation indirectly through hard-to-measure, long-delayed feedback effects of various kinds.

"I and other Berkshire executives have arranged in the past, as we will arrange in the future, all charitable donations in the first category. However, the aggregate level of giving in such category has been quite low, and very likely will remain quite low, because not many gifts can be shown to produce roughly commensurate direct benefits to Berkshire.

"In the second category, Berkshire's charitable gifts have been virtually nil, because I am not comfortable with ordinary corporate practice and had no better practice to substitute. What bothers me about ordinary corporate practice is the way gifts tend to be made based more on who does the asking and how corporate peers are responding than on an objective evaluation of the donee's activities. Conventionality often overpowers rationality.

"A common result is the use of the stockholder's money to implement the charitable inclinations of the corporate manager, who usually is heavily influenced by specific social pressures on him. Frequently there is an added incongruity; many corporate managers deplore governmental allocation of the taxpayer's dollar but embrace enthusiastically their own allocation of the shareholder's dollar.

"For Berkshire, a different model seems appropriate. Just as I wouldn't want you to implement your personal judgments by writing checks on my bank account for charities of your choice, I feel it inappropriate to write checks on your corporate "bank account" for charities of my choice. Your charitable preferences are as good as mine and, for both you and me, funds available to foster charitable interests in a tax-deductible manner reside largely at the corporate level rather than in our own hands.

"Under such circumstances, I believe Berkshire should imitate more closely-held companies, not larger public companies. If you and I each own 50% of a corporation, our charitable decision making would be simple. Charities very directly related to the operations of the business would have first claim on our available charitable funds. Any balance available after the "operations-related" contributions would be divided among various charitable interests of the two of us, on a basis roughly proportional to our ownership interest. If the manager of our company had some suggestions, we would listen carefully — but the final decision would be ours. Despite our corporate form, in this aspect of the business we probably would behave as if we were a partnership.

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"Wherever feasible, I believe in maintaining such a partnership frame of mind, even though we operate through a large, fairly widely-held corporation. Our Treasury ruling will allow such partnership-like behavior in this area . . .

"I am pleased that Berkshire donations can become owner-directed. It is ironic, but understandable, that a large and growing number of major corporations have charitable policies pursuant to which they will match gifts made by their employees (and — brace yourself for this one — many even match gifts made by directors) but none, to my knowledge, has a plan matching charitable gifts by owners. I say "understandable" because much of the stock of many large corporations is owned on a "revolving door" basis by institutions that have short-term investment horizons, and that lack a long-term owner's perspective . . .

"Our own shareholders are a different breed. As I mentioned in the 1979 annual report, at the end of each year more than 98% of our shares are owned by people who were shareholders at the beginning of the year. This long-term commitment to the business reflects an owner mentality which, as your manager, I intend to acknowledge in all feasible ways. The designated contributions policy is an example of that intent."

* * *

The history of contributions made pursuant to this program since its inception follows:

Year	*Specified Amount per share*	*Percent of Eligible* Shares Participating*	*Amount Contributed*	*No. of Charities*
1981	$2	95.6%	$1,783,655	675
1982	$1	95.8%	$ 890,948	704
1983	$3	96.4%	$3,066,501	1,353
1984	$3	97.2%	$3,179,049	1,519
1985	$4	96.8%	$4,006,260	1,724
1986	$4	97.1%	$3,996,820	1,934
1987	$5	97.2%	$4,937,574	2,050
1988	$5	97.4%	$4,965,665	2,319
1989	$6	96.9%	$5,867,254	2,550
1990	$6	97.3%	$5,823,672	2,600
1991	$7	97.7%	$6,772,024	2,630
1992	$8	97.0%	$7,634,784	2,810
1993	$10	97.3%	$9,448,370	3,110

* *Shares registered in street name are not eligible to participate.*

In addition to the shareholder-designated contributions summarized above, Berkshire and its subsidiaries have made certain contributions pursuant to local level decisions of operating managers of the businesses.

* * *

The program may not be conducted in the occasional year, if any, when the contributions would produce substandard or no tax deductions. In other years Berkshire expects to inform shareholders of the amount per share that may be designated, and a reply form will accompany the notice allowing shareholders to respond with their designations. If the program is conducted in 1994, the notice will be mailed on or about September 15 **to shareholders of record reflected in our Registrar's records as of the close of business August 31, 1994,** and shareholders will be given until **November 15** to respond.

Shareholders should note the fact that shares held in street name are not eligible to participate in the program. To qualify, shares must be registered with our Registrar on August 31 in the owner's individual name(s) or the name of an owning trust, corporation, partnership or estate, as applicable.

BERKSHIRE HATHAWAY INC.

COMBINED FINANCIAL STATEMENTS

BUSINESS GROUPS

Berkshire's consolidated data is rearranged in the presentations on the following seven pages into four categories, corresponding to the way Mr. Buffett and Mr. Munger think about Berkshire's businesses. The presentations may be helpful to readers in making estimates of Berkshire's intrinsic value.

The presentations in this section do not conform in all respects to generally accepted accounting principles. Principal departures from GAAP relate to accounting treatment for assets acquired in business acquisitions, although students and practitioners of accounting will recognize others.

Opinions of Berkshire's independent auditors were not solicited for this data. The four-category presentations in no way fell within their purview.

BERKSHIRE HATHAWAY INC.

INSURANCE GROUP

Berkshire's insurance business is conducted by 14 separate subsidiaries. The members underwrite multiple lines of principally casualty coverages for primarily commercial accounts, providing, for example, liability coverages for truck and bus operators, and casualty coverages for especially large or unusual risks. The Commercial Casualty Division and the Professional Liability and Special Risk Division solicit and underwrite the special large risks. Member companies domiciled in the states of Colorado, Kansas and Nebraska provide standard multiple-line property/casualty insurance to primarily "homestate" residents. A California domiciled member provides workers' compensation insurance to employers in that state. In December 1992, Berkshire acquired 82% of Central States Indemnity ("CSI"). The primary product line of CSI is credit insurance distributed through credit card issuers nationwide.

A Reinsurance Division provides treaty reinsurance to other property/casualty insurers and reinsurers. This division is currently one of the leading providers in the world of property/catastrophe retrocessional protection (i.e., reinsurance for reinsurers).

The Berkshire Hathaway Insurance Group maintains capital strength at unparalleled high levels, significantly higher than normal in the industry. This strength differentiates Group members from their competitors. For example, the Group's net premiums written in 1993 were approximately 9% of the Group's year-end statutory surplus. That compares to an industry average premiums-to-surplus ratio of about 140% (for 1992). The obvious margins of safety thus provided to insureds of the Group are particularly persuasive in marketing of individually negotiated insurance and reinsurance contracts.

Combined financial statements of the Insurance Group — unaudited and not fully adjusted to conform to Generally Accepted Accounting Principles — are presented on the following two pages.

BERKSHIRE HATHAWAY INC.

INSURANCE GROUP

Balance Sheets
(dollars in millions)

	December 31, 1993	December 31, 1992
Assets		
Investments:		
Fixed maturities at amortized cost:		
Bonds	$ 726.7	$ 538.0
Preferred stocks:		
Champion International	279.0	279.0
Salomon Inc	650.0	650.0
USAir	348.0	348.0
Other	23.9	10.6
Equity securities at market:		
Common stocks:		
Capital Cities/ABC, Inc.	1,208.0	1,497.9
Coca-Cola Company	4,157.3	3,901.1
FHLMC	681.0	435.2
GEICO	1,759.6	2,226.2
General Dynamics	401.3	450.8
Gillette	1,431.0	1,365.0
Guinness PLC	270.8	299.5
Washington Post	440.1	396.9
Wells Fargo & Company	854.6	471.5
Other	672.0	86.9
Preferred stocks:		
American Express Company	355.3	290.5
Other	76.7	121.2
	14,335.3	13,368.3
Cash and cash equivalents	1,388.5	471.2
Receivables	280.6	375.3
Deferred costs	490.6	529.2
Other	10.1	8.0
	$16,505.1	$14,752.0
Liabilities		
Losses and loss adjustment expenses	$ 3,128.8	$ 3,151.6
Unearned premiums	315.8	231.8
Accounts payable, accruals and other	482.1	390.0
Income taxes, principally deferred	2,943.9	2,476.3
	6,870.6	6,249.7
Equity		
Minority shareholders'	124.9	70.4
Berkshire shareholders'	9,509.6	8,431.9
	9,634.5	8,502.3
	$16,505.1	$14,752.0

These statements do not conform to GAAP in all respects
These statements are unaudited

BERKSHIRE HATHAWAY INC.

INSURANCE GROUP

Statements of Earnings
(dollars in millions)

	1993	1992	1991
Premiums written	$ 742.7	$ 739.6	$ 802.5
Premiums earned	$ 656.3	$ 664.3	$ 776.4
Losses and loss expenses	456.1	687.6	827.2
Underwriting expenses	169.3	85.7	68.8
Total losses and expenses	625.4	773.3	896.0
Underwriting gain (loss) — pre-tax	30.9	(109.0)	(119.6)
Net investment income	375.9	355.1	331.8
Realized investment gain	555.9	52.6	110.8
Earnings from operations before income taxes	962.7	298.7	323.0
Income tax expense	(254.4)	(25.4)	(38.4)
	708.3	273.3	284.6
Minority interest	4.1	2.6	2.8
Net earnings	$ 704.2	$ 270.7	$ 281.8

Statements of Net Investment Income
(dollars in millions)

	1993	1992	1991
Interest:			
Substantially exempt from federal income taxes	$ 44.5	$ 43.1	$ 54.6
Taxable	33.9	30.9	44.1
	78.4	74.0	98.7
Dividends:			
American Express Company	24.9	24.9	9.2
Capital Cities/ABC, Inc.	0.6	0.6	0.6
Champion International	25.8	25.8	25.8
Coca-Cola Company	63.3	52.2	44.7
FHLMC	6.2	4.4	0.2
GEICO	23.3	20.6	15.6
General Dynamics	7.9	2.4	—
Gillette	19.4	16.7	24.3
Guinness PLC	7.0	7.4	1.2
Salomon Inc	58.5	58.5	58.1
USAir	32.2	32.2	32.2
Washington Post	7.3	7.3	7.3
Wells Fargo & Company	14.2	7.7	16.8
Other	16.1	26.8	8.7
	385.1	361.5	343.4
Investment expenses	(9.2)	(6.4)	(11.6)
Net investment income	$ 375.9	$ 355.1	$ 331.8

These statements do not conform to GAAP in all respects
These statements are unaudited

BERKSHIRE HATHAWAY INC.

MANUFACTURING, PUBLISHING AND RETAILING BUSINESSES

Combined financial statements of Berkshire's Manufacturing, Publishing and Retailing businesses - unaudited and not fully adjusted to conform to Generally Accepted Accounting Principles - are presented on the following page. The operations whose data have been combined in these presentations include the following:

Operation	*Product/Service/Activity*
Adalet	Conduit fittings, explosion proof junction boxes, couplings and terminators
Blue Chip Stamps	Marketing motivational services
Borsheim's	Retailing fine jewelry
Buffalo News	Daily and Sunday newspaper
Campbell Hausfeld	Air compressors, air tools and painting systems
Carefree	Sun and shade control products and accessories for RVs
Cleveland Wood Products	Vacuum cleaner brushes
Dexter Shoe Companies	Dress, casual and athletic shoes
Douglas Products	Hand-held electric and cordless vacuum cleaners
Fechheimer Bros. Co.	Uniforms and accessories
France	Appliance controls, ignition and sign transformers
H. H. Brown Shoe Co.	Work shoes, boots and casual footwear
Halex	Zinc die cast electrical fittings
K&W Products	Automotive compounds
Kirby	Home cleaning systems
Lowell Shoe, Inc.	Women's and nurses' shoes
Meriam	Pressure and flow measurement devices
Nebraska Furniture Mart	Retailing home furnishings
Northland	Fractional horsepower motors
Powerwinch	Boat winches, windlasses
Precision Steel Products	Steel service center
Quikut	Cutlery
ScottCare	Cardiopulmonary rehabilitation and monitoring equipment
Scot Labs	Cleaning and maintenance chemicals
See's Candies	Boxed chocolates and other confectionery products
Stahl	Custom steel service bodies and tool boxes for trucks
Wayne	Furnace burners; sump, utility and sewage pumps
Western Enterprises	Compressed gas fittings and regulators
Western Plastics	Molded plastic components
World Book	Encyclopedias and other reference materials

BERKSHIRE HATHAWAY INC.

MANUFACTURING, PUBLISHING and RETAILING BUSINESSES

Balance Sheets
(dollars in millions)

	December 31, 1993	December 31, 1992
Assets		
Cash and cash equivalents	$ 90.4	$ 62.7
Accounts receivable	275.9	230.9
Inventories	351.0	253.7
Properties and equipment	195.9	163.9
Other	36.1	29.9
	$ 949.3	$ 741.1
Liabilities		
Accounts payable, accruals and other	$ 257.2	$ 223.3
Income taxes	38.5	40.6
Term debt and other borrowings	24.7	28.1
	320.4	292.0
Equity		
Minority shareholders'	35.8	33.2
Berkshire shareholders'	593.1	415.9
	628.9	449.1
	$ 949.3	$ 741.1

Statements of Earnings
(dollars in millions)

	1993	1992	1991
Revenues:			
Sales and service revenues	$1,962.9	$1,774.4	$1,651.1
Interest income	8.0	7.5	8.5
Sundry income	5.0	3.0	2.1
	1,975.9	1,784.9	1,661.7
Costs and expenses:			
Costs of products and services sold	1,172.5	1,043.6	933.7
Selling, general and administrative	527.2	484.5	508.6
Interest on debt	3.7	4.6	4.9
	1,703.4	1,532.7	1,447.2
Earnings from operations before income taxes	272.5	252.2	214.5
Income tax expense	103.7	97.4	82.3
	168.8	154.8	132.2
Minority interest	4.5	4.2	4.6
Net earnings	$ 164.3	$ 150.6	$ 127.6

Dexter Shoe Company ("Dexter") was acquired effective November 7, 1993. Accordingly, this presentation reflects Dexter's results of operations only for the period subsequent to the acquisition date. Dexter's financial position at December 31, 1993, is included in the 1993 balance sheet.

Purchase-price accounting adjustments, including goodwill, arising from Berkshire's business acquisitions are not reflected in these statements, but instead are reflected in the statements of non-operating activities at page 59.

These statements do not conform to GAAP in all respects
These statements are unaudited

BERKSHIRE HATHAWAY INC.

COMMERCIAL AND CONSUMER FINANCE BUSINESSES

Scott Fetzer Financial Group, Inc. and *Berkshire Hathaway Credit Corporation* make up Berkshire's commercial and consumer finance businesses. Until October 1993, *Mutual Savings and Loan Association* was also included in this group of businesses. In October 1993, a federal savings bank assumed Mutual's savings account liabilities, offset substantially by real estate loans, cash and certain other assets of Mutual.

Balance Sheets
(dollars in millions)

	December 31, 1993	December 31, 1992
Assets		
Cash and cash equivalents	$ 16.5	$ 64.4
FHLMC common stock *	—	71.7
Mortgages and mortgage-backed securities	656.3	170.8
Installment and other receivables	179.8	181.1
Deferred tax assets	4.0	4.9
Other	1.3	26.3
	$ 857.9	$ 519.2
Liabilities		
Borrowings under investment agreements and other debt	$ 772.7	$ 145.1
Accounts payable, accruals and other	51.9	27.8
Income taxes	0.4	0.7
Savings accounts	—	250.9
	825.0	424.5
Equity		
Minority shareholders'	—	12.5
Berkshire shareholders'	32.9	82.2
	32.9	94.7
	$ 857.9	$ 519.2

Statements of Earnings
(dollars in millions)

	1993	1992	1991
Revenues:			
Interest and fees on loans and financed receivables	$ 42.3	$ 49.7	$ 53.2
Interest and dividends on investment securities	20.5	16.4	18.3
Sundry income	1.9	0.4	1.3
	64.7	66.5	72.8
Expenses:			
Interest on debt	19.4	13.9	14.3
Interest on savings accounts	5.8	12.0	18.3
General and administrative	16.8	20.8	20.7
	42.0	46.7	53.3
Earnings from operations before income taxes	22.7	19.8	19.5
Income tax expense	7.7	6.4	4.6
	15.0	13.4	14.9
Minority interest	0.8	0.7	0.9
Earnings before realized investment gain	14.2	12.7	14.0
Realized investment gain	—	—	4.5
Net earnings	$ 14.2	$ 12.7	$ 18.5

* *Effective January 1, 1994, MSMLMIC (formerly Mutual Savings and Loan Association) was merged into Wesco Financial Insurance Company. For purposes of this presentation, this merger was treated as if effective on December 31, 1993. Accordingly, the shares of FHLMC common stock and MSMLMIC's other remaining assets and liabilities at December 31, 1993, have been included with the Insurance Group.*

These statements do not conform to GAAP in all respects
These statements are unaudited

BERKSHIRE HATHAWAY INC.

NON-OPERATING ACTIVITIES

These statements reflect the consolidated financial statement values for assets, liabilities, shareholders' equity, revenues and expenses that were not assigned to any Berkshire operating group in the unaudited, and not fully GAAP - adjusted group financial statements heretofore presented (pages 52 to 58).

Statements of Net Assets
(dollars in millions)

	December 31	
	1993	1992
Assets		
Cash and cash equivalents	$ 358.9	$ 595.3
Investments:		
Fixed maturities:		
Bonds	—	127.1
Preferred stocks	81.0	81.0
Equity securities *	232.5	38.1
Unamortized goodwill and property account adjustments **	541.8	277.7
Deferred tax assets	7.7	6.0
Other	174.9	22.5
	$1,396.8	$1,147.7
Liabilities		
Accounts payable, accruals and other	$ 62.8	$ 16.5
Income taxes	59.4	10.5
Borrowings under investment agreements and other debt	960.2	1,141.0
	1,082.4	1,168.0
Equity		
Minority shareholders'	21.6	13.4
Berkshire shareholders'	292.8	(33.7)
	314.4	(20.3)
	$1,396.8	$1,147.7

Statements of Earnings
(dollars in millions)

	1993	1992	1991
Revenues:			
Interest and dividend income	$ 24.3	$ 58.9	$ 60.1
Realized investment gain (loss)	(9.4)	37.3	69.5
Sundry income	4.1	3.3	4.4
	19.0	99.5	134.0
Expenses:			
Corporate administration	4.9	4.2	5.6
Shareholder-designated contributions	9.4	7.6	6.8
Amortization of goodwill and property account adjustments **	17.1	12.0	10.0
Interest on debt	54.0	94.5	84.5
Other costs and expenses	1.8	1.3	0.9
	87.2	119.6	107.8
Earnings (loss) before income taxes	(68.2)	(20.1)	26.2
Income tax expense	(125.8)***	(8.9)	(12.7)
	(194.0)	(29.0)	13.5
Minority interest	0.6	(2.3)	1.5
Net earnings (loss)	$ (194.6)	$ (26.7)	$ 12.0

* *In 1993, a new accounting rule was adopted which requires that equity securities be carried at market. In 1992, and prior years these securities were carried at the lower of aggregate cost or market.*

** *Property account adjustments and goodwill arose in accounting for business acquisitions.*

*** *Includes non-recurring charges of $146.3 million related to adoption of a new rule regarding the accounting for income taxes.*

These statements do not conform to GAAP in all respects
These statements are unaudited

COMMON STOCK

Stock Transfer Agent

The Bank of Boston Shareholder Services Division, P.O. Box 644, Boston, MA 02102-0644 serves as Transfer Agent and Registrar for the Company's common stock. Correspondence with the Division may be directed to Investor Relations, Mail Stop 45-02-09. Certificates for re-issue or transfer should be directed to the Transfer Processing Section, Mail Stop 45-01-05. **Certificates should not be mailed to the Company.**

Shareholders

The Company had approximately 7,600 record holders of its common stock at March 8, 1994. Record owners included nominees holding at least 180,000 shares on behalf of beneficial-but-not-of-record owners. Management believes that the Company has more than 16,000 beneficial owners.

Price Range of Common Stock

The Company's Common Stock is listed for trading on the New York Stock Exchange, trading symbol: BRK. The following table sets forth the high and low sales prices per share, as reported on the New York Stock Exchange Composite List during the periods indicated:

1993	High	Low	1992	High	Low
First Quarter	$13,200	$11,350	First Quarter	$9,000	$8,575
Second Quarter	16,200	11,800	Second Quarter	9,300	8,850
Third Quarter	17,800	15,100	Third Quarter	9,950	9,050
Fourth Quarter	17,800	16,200	Fourth Quarter	11,750	9,150

Dividends

Berkshire has not declared a cash dividend since 1967.

DIRECTORS

WARREN E. BUFFETT, *Chairman*
Chief Executive Officer of Berkshire

CHARLES T. MUNGER, *Vice Chairman of Berkshire*

SUSAN T. BUFFETT

HOWARD G. BUFFETT,
Vice President of Archer Daniels Midland Company, engaged principally in the business of processing and merchandising agricultural commodities.

MALCOLM G. CHACE, III

WALTER SCOTT, JR.,
Chairman and Chief Executive Officer of Peter Kiewit Sons', Inc., engaged worldwide in construction, mining, packaging and timberlands.

OFFICERS

WARREN E. BUFFETT, *Chairman and CEO*

CHARLES T. MUNGER, *Vice Chairman*

ROBERT H. BIRD, *Vice President*

MARC D. HAMBURG, *Vice President, Treasurer*

STANFORD LIPSEY, *Vice President*

DANIEL J. JAKSICH, *Controller*

FORREST N. KRUTTER, *Secretary*

ROBERT M. FITZSIMMONS,
Director of Internal Auditing

JERRY W. HUFTON,
Director of Taxes

MARK D. MILLARD,
Director of Financial Assets

Two compilations of letters from earlier Annual Reports are available upon request. One is from reports for 1977 through 1986, the other, from reports for 1987 through 1990. Single copies are furnished without charge in response to requests received by the Company at 3555 Farnam St., Suite 1440, Omaha, NE 68131.

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